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**APPLYING COMMERCIAL PRACTICES TO  
NAVY HUSBANDING SERVICES CONTRACTS**

by

Paul J. Verrastro

December 1996

Thesis Advisor:

David V. Lamm

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**APPLYING COMMERCIAL PRACTICES TO NAVY HUSBANDING  
SERVICES CONTRACTS**

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Submitted in partial fulfillment  
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## **ABSTRACT**

This thesis focuses on the application of commercial practices to Navy husbanding services contracts. It examines the general background and framework for the use of husbanding agents within the Department of the Navy and explores the pre-award and post-award issues associated with these husbanding services contracts. Through personal interviews and a review of the available literature, the research provides beneficial insight into the practices currently being utilized by commercial ship operator firms and commercial port agencies. The research identifies several best commercial practices as they relate to husbanding services and examines the benefits and the barriers for the Navy to implement these practices.



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## I. INTRODUCTION

### A. AREA OF RESEARCH

Over the past several years, there has been a focus on acquisition reform and streamlining the acquisition process. One of the requirements of the Federal Acquisition Streamlining Act of 1994 (FASA 94) was to research how commercial firms do business and where practicable, apply these commercial practices to the Federal contracting process.

[Ref. 1:Title VIII]

This thesis focuses on the application of commercial practices to the area of contracting for Navy husbanding services. Husbanding services are the logistical support services that a ship requires when it pulls into a port. This includes services such as pilotage, towage, line handling, trash removal, sewage removal, potable water, and transportation. In the United States, these husbanding services are provided by the military's regional supply operations. In foreign ports, however, these services are contracted out to private firms known as husbanding agencies. It is the husbanding agency's responsibility to arrange for all the supplies and services required by a ship. [Ref. 2:p.4]

This thesis explores how the Naval Regional Contracting Center (NRCC), Naples, Italy awards and manages the Navy's husbanding services contracts and compares their practices to the methods used by commercial firms.

### B. BACKGROUND

The mission of NRCC Naples is, "to acquire supplies and services for Naval activities and deployed units in the geographical areas of Europe, the United Kingdom, Ireland, Iceland,

the Middle East and Africa . . . " [Ref. 3:p. 2]

In April 1996, NRCC Naples was designated as the worldwide program manager of the Navy's husbanding services network. This designation included four prime responsibilities:

- to define and promulgate Department of the Navy (DoN) policy and procedures relative to the award and administration of Navy husbanding services and contracts;
- to ensure contract vehicles provide for instant support and contain provisions for surge capacity in support of contingency operations;
- to coordinate specific requirements for all husbanding services contracts with Unified and Specified Commander in Chiefs (CINCs), Fleet Commanders, Type Commanders, and the responsible regional contracting activities; and
- to maintain and promulgate a worldwide husbanding services contract bulletin summary. [Ref. 2:p. 6]

Naval Regional Contracting Centers (NRCCs) and Fleet and Industrial Supply Centers (FISCs) will continue to award and administer husbanding service contracts in their respective Area of Responsibility (AOR) with the guidance and assistance from NRCC Naples. [Ref. 2:p. 6]

NRCC Naples is committed to improving the procedures relative to the award and management of Navy husbanding services and contracts. One method of continuing this process improvement is through the examination of commercial practices. Commercial practices are the techniques, methods, customs, processes, rules, guides, and standards normally used by business but either applied differently or not used by the Federal Government. The potential benefits of adopting commercial practices include: cost savings

on initial award and throughout the contract period; higher quality of services; reduction in the administration requirements; enhanced performance by the contractor; and a partnering of the Government and industry. The true value of the adoption of related commercial practices, however, will be seen only after an examination of its situational advantages and disadvantages. [Ref. 4:p. 1-4]

### C. SCOPE AND LIMITATIONS

This thesis will identify several of the commercial practices in the contracting and management of husbanding services and will determine if the Navy can benefit from these practices. Interviews were conducted with DoN personnel at NRCC Naples and FISC San Diego to collect the necessary background information and current issues surrounding husbanding services contracts. Interviews were then conducted with a variety of commercial firms with the intent to solicit a broad range of viewpoints on current commercial practices. No attempt was made to provide a statistically sound sample size of commercial firms. A complete listing of interviews is provided in Appendix A.

Formal interviews were conducted with three husbanding agencies using the questionnaire in Appendix B. Two interviews were composed of a combination of telephone conversations, e-mail correspondence, and personal interviews. One interview consisted solely of an one hour telephone conversation. Informal interviews were also conducted with seven other husbanding agents during the 1996 Fleet Support Conference.

This thesis was limited by the number of commercial ship operators who participated. Three firms initially agreed to participate, however, only one firm actually did. This

participation consisted of a two hour interview using the questionnaire in Appendix C. The other two firms kept rescheduling the interview times over a period of several months. This thesis was also limited by the lack of literature available on Navy husbanding services contracts.

#### **D. RESEARCH QUESTIONS**

##### **1. Primary Question**

Are there any commercial practices currently being used in the private sector that the Department of the Navy, specifically NRCC Naples, could apply to the process of awarding and administering husbanding services contracts to improve the way the Navy does business?

##### **2. Subsidiary Questions**

- What are Navy husbanding services?
- How does the Department of Navy currently award husbanding services contracts?
- What are the common difficulties associated with Navy husbanding services contracts?
- What are the current practices within the private sector regarding contracting and administering husbanding services?
- What are the advantages/benefits and the disadvantages/barriers for the Navy in implementing commercial practices in this area?

## **E. RESEARCH METHODOLOGY**

The research was conducted in two phases. The first phase included a review of the Department of Defense acquisition process and the contracting of husbanding services by NRCC Naples as a function of that process. Primary sources of information included: a review of current acquisition directives, regulations and instructions; a review of several recent solicitations for husbanding services; and interviews with contracting personnel at NRCC Naples, FISC San Diego, California, and the Military Sealift Command. No literature was located on the acquisition of Navy husbanding services.

The second phase involved examining current commercial practices as they related to contracting for husbanding services. This phase included a review of literature relating to commercial contracting practices and interviews with commercial husbanding agency firms, a commercial ship operator firm (buyer of husbanding services), a large tug and barge company, and an association for ship agents.

Additionally, much information was gathered through attendance and informal interviews with personnel at the NRCC Naples 1996 Fleet Support Conference in Barcelona, Spain. This conference brought together key fleet support and logistics personnel in the Mediterranean. The theme of the conference was cost avoidance and cost reduction of Navy port visits. It was also designed to strengthen the Navy and husbanding agent team. Attendees included representatives from several regional contracting offices, more than two dozen separate husbanding agencies; the U.S. Defense Attache Offices (USDAOs); Naval Supply Systems Command; Defense Logistics Agency; Commander in Chief, United States Naval Forces, Europe (CINCUSNAVEUR); Sixth Fleet; Commander Task Force-63; and

shipboard U.S. Navy Supply Officers.

#### **F. BENEFITS OF RESEARCH**

Government procurement has entered a new era. Several initiatives to streamline and reinvent the procurement process to mirror the more successful and cost effective commercial practices are all underway. This thesis examines the successful practices for acquiring and managing husbanding service contracts in private industry. It provides beneficial insights for the Navy to implement commercial practices and contributes to the FASA 94 requirement of researching and applying commercial practices to the Federal contracting process.

This thesis is the first to specifically address issues in the award and administration of Navy husbanding services contracts. The research effort serves as a ready reference for comparing Navy husbanding services to commercial port services.

#### **G. ORGANIZATION OF STUDY**

This thesis consists of six chapters. Chapter II provides the general background and framework for the use of husbanding agents within the Department of the Navy. It discusses the husbanding agent's responsibilities, services and payment procedures as well as the general contracting process. Chapter III reviews the responsibilities and the roles of the commercial ship agent, the counterpart to the Navy's husbanding agent. It discusses the current practices within the commercial sector regarding the contracting and administering of husbanding services. Chapter IV examines and analyzes the current issues concerning Navy husbanding agent contracts. A presentation of pre-award and post-award

administration difficulties is made highlighting the information gathered in personal interviews and the literature review. Chapter V examines a case study of one commercial firm's innovative approach to contracting and managing husbanding services. Chapter VI presents the conclusions and recommendations of the researcher. Included are answers to the primary and subsidiary research questions, and recommendations for further research.



## **II. BACKGROUND**

### **A. INTRODUCTION**

This chapter provides background information on husbanding services contracts. The chapter begins by defining a Navy husbanding agent, discussing his responsibilities, outlining the principal services he provides to U.S. Navy ships, and discussing the payment procedures. It concludes with a general description of the husbanding agent contracting process.

### **B. HUSBANDING SERVICES**

#### **1. Definitions**

A "Husbanding Services Contract" is a non-personal services contract awarded for support of fleet units in foreign ports. The contract duplicates a variety of littoral logistics support services commonly available from continental United States (CONUS) regional supply operations. [Ref. 2:p. 4]

A "Navy Husbanding Agent" is a person who provides these husbanding services. More specifically, a Navy husbanding agent is a person who provides or arranges for all supplies and services required by a ship, collects the various bills from his vendors and presents them for payment to the ship, and pays the vendors and himself upon receipt of payment from the ship. The husbanding agent is the single point of contact for the ship while it is in that port.

#### **2. Responsibilities**

A Navy husbanding agent's responsibilities include those listed below.

*a.      Preliminary Arrangements*

Upon notification of a forthcoming visit by a U. S. Navy vessel, the husbanding agent for that port will make preliminary arrangements as necessary with port authorities, other Government contractors, and other commercial firms to provide services as requested by the ship. [Ref. 5:p. 11]

*b.      Initial Boarding*

The husbanding agent is required to board each ship upon arrival to discuss the ship's requirements. He is required to provide the ship with English copies of applicable port tariffs and current prices for frequently ordered services. The husbanding agent must be prepared to take additional ship's orders for any official supplies or services. In addition, the husbanding agent must also be prepared to brief ship personnel on local area public transportation availability, emergency services, and recreational facilities located in the vicinity of the port where the ship is berthed. [Ref. 5:p. 12]

*c.      Coordinate all Requirements for Ship*

Based upon the ship's orders, the husbanding agent must coordinate all the ship's requirements and ensure the timely delivery of these supplies and services as set forth in the contract. The husbanding agent is responsible for monitoring the status of the ship's orders to ensure timely and satisfactory performance. He is required to visit the ship at least once a day and must be available on call at all times to assist the ship with any problems encountered during that port visit. [Ref. 5:p. 12]

*d.      Pass Ship's Orders to Other Government Contractors*

The husbanding agent must coordinate and pass orders to other Contractors

holding U. S. Government contracts for various supplies and services. This includes all necessary actions to facilitate the acceptance of supplies or services ordered under Government contracts. Additionally, the husbanding agent may be required to present other Contractors' invoices to the ordering ship and receive and deliver other Contractors' payments. [Ref. 5:p. 12]

*e. General Assistance*

The husbanding agent is responsible for assisting the ship with any official requirements of the ship associated with its port visit. The husbanding agent is not required to arrange unofficial requirements or personal requests from individual crew members. [Ref. 5:p. 13]

*f. Communication and Interpreter Services*

The husbanding agent who is assigned to the ship is required to be fluent in English and must be able to discuss technical aspects of shipboard requirements and services available in the ports. The husbanding agent is responsible for providing all interpreter services necessary to assure timely delivery and performance of the supplies and services required by the ship. [Ref. 5:p. 13]

*g. Pre-sailing Visit*

The husbanding agent is responsible for presenting invoices to the ship one day prior to its sailing date. The husbanding agent is also responsible for relaying any late information on pilot and tug schedule changes and any additional information applicable to the ship and its departure. [Ref. 5:p. 14]

### **3. Husbanding Agent's Fee**

The husbanding agent's fee that is agreed upon in the contract, "constitutes total consideration" for performance of husbanding services, including all overhead and office expenses (e.g., telephone, telex, fax, postage), and contractor overtime (nights, weekends, holidays). The contractor is entitled to additional compensation if required to host an "advanced boarding party" or to contact the ship by satellite (INMARSAT) telephone prior to the ship's arrival.

The husbanding agent's fee is based on a daily rate for the first day the ship is in port, and usually a reduced daily rate for subsequent days the ship remains in that port. [Ref. 5:p. 11]

### **4. Services Arranged by a Husbanding Agent**

Under a typical Navy husbanding services contract, the husbanding agent is responsible for providing or arranging for the following services.

#### **a. *Trash Removal***

The husbanding agent is responsible for furnishing all labor and equipment necessary for the collection of refuse. When ships are pier-side, this may simply amount to providing adequate refuse containers on the pier and emptying them on a regularly scheduled basis. When ships are at anchorage, this requires the use of a "garbage barge" which must be transported to the anchored ship and secured alongside for a period of several hours before being taken away and emptied. The husbanding agent is responsible for compliance with all laws, ordinances, statutes and regulations. The contract specifies the definition of "refuse" as well as procedures for bad weather or emergency conditions. Normally husbanding

agents are paid on a per day basis for ships that are pier-side and on a per collection basis for ships that are at anchorage. The cost of trash collection increases significantly when ships are at anchorage due to the increased costs of transporting the "garbage barge" to and from the ship. [Ref. 5:p. 14]

*b. Sewage Removal*

The husbanding agent is responsible for furnishing all labor and equipment necessary for the collection of sewage. Sewage is pumped by the ship into husbanding agent provided barges and/or trucks. The husbanding agent is then required to dispose of this sewage in accordance with local and national laws and regulations.

The unit price charged by the husbanding agent must be inclusive of all operating expenses. Normally, husbanding agents are paid on a volume basis. Sewage disposal is usually the greatest cost of any port visit. [Ref. 5:p. 17]

*c. Waste Oil and Aggregate Water Removal*

The husbanding agent is responsible for furnishing all labor and equipment necessary for the collection of waste oil and aggregate water. Waste oil is pumped by the ship into husbanding agent provided containers and/or trucks. The husbanding agent is then required to dispose of this waste oil in accordance with local and national laws and regulations.

The unit price charged by the husbanding agent must be inclusive of all operating expenses. Husbanding agents are paid on a per gallon basis which must be certified by ship's personnel. [Ref. 5:p. 18]

*d. Fresh Potable Water*

The husbanding agent is responsible for providing all facilities and equipment to provide the ship with fresh potable water. Potable water is defined as fresh drinking water that meets the specifications set forth in Naval Medical Command Instruction 6240.10 and Guidelines for Drinking-Water Quality published by the World Health Organization. When ships are at anchorage, the husbanding agent is responsible for transporting the water by barge. All equipment, barges, trucks, and potable water are subject to inspection and test by the Government.

The unit price charged by the husbanding agent must be inclusive of all operating and transportation expenses. Husbanding agents are paid on a per gallon basis which must be certified by ship's personnel. [Ref. 5:p. 19]

*e. Cargo Lighterage*

Cargo lighterage is the transportation of cargo over water by vessel. Normally this is accomplished by motorboat, pontoon, or barge service. Requirements for lighterage service may include the movement of aircraft engines, motor vehicles, machinery, equipment, fresh provisions and general supplies. The husbanding agent is responsible for ensuring that the proper size and type of craft is utilized for the purpose intended. It is the husbanding agent's responsibility to coordinate lighter services to ensure fresh provisions receive preferential treatment and are delivered to the ship with a minimum of delay. If the husbanding agent is negligent, he may be held liable for the shipment damage to the provisions. Prices for lighterage service are normally assessed by the hour. [Ref. 5:p. 21]

*f. Cargo Drayage*

Cargo drayage is the transportation of cargo by vehicle (truck) over land. The husbanding agent is responsible for ensuring the proper size truck is used for the purpose intended. Prices are normally assessed on a per hour basis which includes the driver, insurance, fuel, tools and incidental expenses. The husbanding agent is responsible for ensuring that all licenses, registrations, and permits are in accordance with the laws and regulations. [Ref. 5:p. 22]

*g. Crane and Forklift Services*

The husbanding agent is responsible for providing both cranes and forklifts along with the necessary operators, as required by the ship. Most Navy contracts specify a minimum lifting capacity, reach, and maneuverability. [Ref. 5:p. 22]

*h. Water Taxi Service*

The husbanding agent is responsible for providing water taxi service between the ship and a designated landing when ships are at anchorage. The price for water taxi service must include a driver/operator, crew members if necessary, all insurance, fuel, other operating expenses and any surcharges for holidays. Navy contracts require the husbanding agent to verify that the water taxis meet the contract specifications as dictated by the statement of work and technical attachments. These requirements are usually four to five type written pages long. Additionally, the Commanding Officer of the Navy ship, or his designated representative is responsible for inspecting and accepting all water taxis prior to transporting any U.S. Navy personnel. [Ref. 5:p. 23]

*i. Bus Service*

The husbanding agent is responsible for providing bus services as required for use within a specified radius of the ship or fleet landing if the ship is at anchorage. Navy contracts require that the price of the bus service include the driver, any helpers, all insurance, fuel, holiday surcharges, and other operating expenses. It is the husbanding agent's responsibility to ensure that the buses are licensed, registered and insured, including passenger liability insurance. [Ref. 5:p. 27]

*j. Telephone Service - Land Lines*

The husbanding agent is responsible for ensuring land line telephone service is available for official local and international use. Usage charges are the actual charges computed in accordance with local and national tariffs. [Ref. 5:p. 29]

*k. Telephone Service - Cellular*

The husbanding agent is responsible for providing cellular telephones. Navy contracts require that the phones are less than two years old, mechanically sound and in full compliance with local or national telephone regulations. Additionally, the phones must be equipped with battery chargers, transformers, adapters and usage instructions which are written in English. [Ref. 5:p. 27]

*l. Pilots, Tugs and Line Handlers*

The husbanding agent is responsible for providing pilots, tugs and line handlers. The husbanding agent is responsible for coordinating with the port authorities to ensure the services are available at the times requested. [Ref. 5:p. 20]

*m. Berthing*

Husbanding agents are responsible for coordinating with port authorities as necessary to ensure that pier-side berths or anchorage positions are available as required by the ship and at the times requested. [Ref. 5:p. 28]

*n. Fenders and Camels*

A fender is a protective device placed in between the ship and the pier or barge to absorb impact or friction. A camel is a flat barge surface to be positioned alongside the ship to serve as a loading/unloading platform for water taxi personnel and supplies or to be placed alongside the pier for use in breasting the ship away from the pier. The husbanding agent is responsible for furnishing fenders and camels in the sizes as specified in the contract. [Ref. 5:p. 29]

*o. Brows*

Most Navy ships carry brows, however, the husbanding agent is responsible for providing brows if required by the ship due to the unusual mooring facilities. [Ref. 5:p. 22]

*p. Paint Float Rental*

Husbanding agents are responsible for furnishing paint floats to vessels as requested. These paint floats must meet the minimum specifications as dictated by the contract. Transportation of the paint float to and from the ship is the husbanding agent's responsibility. Prices are assessed on a daily rate. [Ref. 5:p. 28]

*q. Fuel*

Normally, fuel is provided through existing Government owned bunker capabilities in the port or through contracts awarded by the Defense Fuel Supply Center

(DFSC) or Navy Petroleum Office (NPO). In these cases, the husbanding agent is responsible for passing the ship's order for fuel to the appropriate fuel supplier and for coordinating the delivery of the fuel to the ship.

If there are no existing Government owned fuel bunkers or contracts in place, the husbanding agent is responsible for facilitating competition on the ship's behalf whenever practicable. The husbanding agent is also responsible for arranging the timely delivery of fuel at fair and reasonable terms, for meeting recognized standards of quality, and for ensuring that the fuel supplier complies with all laws and regulations relating to the provision of fuel. Compensation for the husbanding agent's efforts associated with assisting in this acquisition and delivery of fuel are included in the daily fixed husbanding services rate. [Ref. 5:p. 29]

*r. Fresh Fruits and Vegetables (FFV), Bread, and Eggs*

If requested by the ship, the husbanding agent shall arrange for the provision of FFV, bread, and eggs. The contractor is required to comply with the "Competition in Subcontracting" clause of the Federal Acquisition Regulation (FAR). The husbanding agent is responsible for ensuring that the sources of supplies it uses have been approved by the U.S. Army Veterinary Office. [Ref. 5:p. 30; Ref. 6:Part 52.244-5]

*s. Submission of Quarterly Reports*

The husbanding agent is responsible for submitting quarterly reports to NRCC Naples. The reports consist of a summary of all the supplies and services provided for the quarter, for all ships, by individual port. The reports show the actual items delivered to the ships and prices paid by the ships during the previous quarter. The spreadsheet format is provided by NRCC Naples and the husbanding agents must submit the reports on a floppy

disk or via the Internet. [Ref. 5:p. 31]

### **5. Port Tariff Items**

A port tariff item is an item whose price is established and controlled by the port authority. The port authority designates who will perform the service, the terms and conditions, and the pricing of that item. In many cases, the prices of the port tariff items are not negotiable.

Port tariff item pricing can vary significantly between ports. Examples of port tariff items include pilots, berthing and cranes. Individual port authorities levy the tariff according to different criteria. In one port, the berthing tariff may be calculated according to the length of a ship while in another port, the berthing tariff may be calculated according to the gross tonnage of the ship. [Refs. 7, 8]

When husbanding agents respond to solicitations, they may mark an item as "Port Tariff Item." These items will be reimbursed to the husbanding agent at the current port tariff rate charged to the ship. To verify accuracy of the prices charged by the husbanding agent, the contract requires the husbanding agent to provide the ship's Supply Officer with a copy of the published port tariffs in effect at the time of the ship's visit. The husbanding agent is not allowed to add any markup cost onto the port tariff rate. Any "discounts" received by the husbanding agent on "published" port tariff items should be passed through to the U.S. Navy. [Ref. 9]

### **6. Payment Procedures**

Payment for services rendered by the husbanding agent and his vendors are made upon completion of the port visit. The husbanding agent is responsible for collecting the various

bills from his vendors and presenting them to the ship for payment one day prior to the ship's departure from that port. The ship will verify the original invoices against services performed, prepare a form DD-1155, issue one check to cover the total amount, and present it to the husbanding agent prior to leaving that port. The invoices and corresponding payment will also include the routine items, such as tugs and pilots, required by the ship for getting underway the following day. [Ref. 10]

Often the telephone charges and bills will not be received prior to a ship's departure from that port. In these cases, and in any other case where the husbanding agent is unable to present an invoice prior to the ship's departure, the husbanding agent forwards the invoice to NRCC Naples who acts as an intermediary between the ship and the husbanding agent to ensure that the bill is properly paid. NRCC Naples will contact the ship via Naval message or the Streamlined Automated Logistics Transmission System (SALTS) to verify the invoice and to request accounting data. Upon receipt of verification and accounting data, NRCC Naples will prepare a form DD-1155 and submit it to the commercial bill paying office (CBPO) in Naples, who reviews the invoice and DD-1155, and ultimately issues a check to cover the amount. NRCC then picks up the check from CBPO and forwards it to the husbanding agent. The CBPO does not pay interest. [Ref. 10]

## 7. Ship Classes

The various types of ships are divided into five general classes according to crew size. A complete ship class breakdown is provided in Appendix D. During the solicitation process, husbanding agents are required to bid on various items according to "Class of Ship." Examples of these items include: husbanding services fee for the first day in port and

subsequent days in port, trash collection, tugs, potable water, sewage removal, and line handlers. [Ref. 5:p. 4]

The size of the crew within Class III type ships varies significantly. The least-manned ship in the class may have up to 600 crew members, while the heaviest-manned ship may have up to 1,806 crew members. This large "range" of 1206 crew members may cause husbanding agents to "buffer" their bids in the event more heavily-populated ships visit their ports.

### **C. NAVY CONTRACTING ACTIVITIES**

Within the Navy, there are five centers that contract for husbanding services for Navy vessels. NRCC Naples covers the geographical areas of Africa, Azores, Europe, Iceland, and Southwest Asia; NRCC Singapore covers the Indian Ocean area, Southeast Asia, Western and South Pacific Ocean Area, India, Pakistan, China, Hong Kong, Korea, Australia, New Zealand, and the Philippines; FISC Yokosuka covers Japan; FISC Norfolk covers the Caribbean; and FISC San Diego covers Mexico. [Ref. 11:p. 8-9]

These organizations award and administer approximately fifty-five separate husbanding agency companies. The same husbanding agency may be responsible for more than one port. NRCC Naples manages approximately forty of the fifty-five agencies.

## **D. THE CONTRACTING PROCESS**

The contracting process normally incorporates the following sequence of events:

- Define Requirements/Statement of Work
- Acquisition Planning
- Solicitation
- Evaluation
- Negotiations
- Contract Award
- Contract Administration/Modification
- Contract Completion or Termination

### **1. Define Requirements/Statement of Work**

The Statement of Work (SOW) should define all the tasks that will be required during the life of the contract and when they should be performed. [Ref. 12:p. 173] In husbanding contracts, this includes the duties and responsibilities of the husbanding agent as well as the services to be provided by the husbanding agent. The SOW in Navy husbanding contracts tends to be very detailed and descriptive. The majority of services and supplies that the typical Navy ship will require during its port visit are included. The SOW is the basis for source selection and the standard by which the husbanding agent is judged once the contract is awarded.

### **2. Acquisition Planning**

In the acquisition planning phase, the contracting office conducts market research,

determines the method of contracting, establishes the criteria for evaluation, develops the solicitation document, chooses the contract vehicle type, and holds a pre-solicitation conference. Each of these functions is important because collectively they set the framework for the remainder of the process. [Ref. 12:p.10]

*a. Contracting Methods*

The two methods of contracting are sealed bid or competitive proposals (negotiation). The procedure for the solicitation process differs depending on the complexity of the procurement and the cost information available to the Government.

(1) Sealed Bid. The sealed bid method is used primarily for recurring items when there is more than one competitor and discussion with the vendors is not necessary. The Government issues an Invitation for Bid (IFB) and allows enough time for prospective firms to prepare and submit their sealed bids. At a specified date and time, the Government opens the bids and awards the contract to the lowest responsive and responsible bidder. The award is based on price and price-related factors alone. [Ref. 12:p. 90]

(2) Competitive Proposals (Negotiation). The negotiation method is used when discussions, oral or written, are necessary and award will be made on based on price and factors other than those related to price. In the negotiation method, the Government's source selection officials have much greater discretion in selecting the successful offeror for award. They may award on the basis of "best value" by trading off cost to the Government against subjective factors such as technical performance or management capability. For this method, the Government issues a Request for Proposal (RFP) solicitation describing the requirement, including source selection criteria. Interested and qualified firms

then submit their proposals for review and selection. [Ref. 12:p. 1] This is the most common method used for acquiring husbanding services.

**b. *Contract Type***

Although there are numerous contract vehicle types from which to choose, husbanding contracts are Firm-Fixed-Price (FFP) except for port tariff items which are reimbursed at rates established by the port authorities. [Ref. 9]

**3. *Solicitation***

During this phase, the solicitation is advertised and a bidder's conference is held to ensure the husbanding agents understand the Government's requirements. The solicitation document and the bidder's conferences are in the English language only. If a requirement change is necessary, the contracting office will amend the solicitation document.

[Ref. 12:p.219]

**4. *Evaluation***

Once the proposals are received, a complete evaluation of the proposals is conducted applying the criteria developed during the acquisition phase and stated in the solicitation document. Although specific evaluation factors may vary with each contract and port, typical evaluation criteria for a husbanding agent include technical approach, equipment and support availability, management approach, price, experience, and past performance.

[Ref. 9]

The technical approach may include evaluation factors such as number of personnel, bilingual proficiency, and technical competence. The equipment and support availability would include such factors as the availability of communications, availability or access to all

equipment, administrative support and the coordination of all the necessary equipment. The management approach would include such factors as the pre-arrival plan, the initial boarding plan, the contractor's plan for monitoring the progress of work and pre-sailing procedures. In the area of experience, his past and current experience as a Navy husbanding agent or a commercial ship agent, the recency of his experience, the relevancy of his experience and the experience he has in that specific port are all factors to be evaluated. The husbanding agent's past performance is also evaluated. [Ref. 13]

#### **5. Negotiations**

Negotiations involve all of the terms and conditions of a contract including price. While both the Government and the potential contractor strive to optimize their own position during the negotiations, they also attempt to obtain a mutually acceptable agreement on requirements for performance, schedule and cost. [Ref. 12:p. 436]

#### **6. Contract Award**

Husbanding services contracts may be awarded for one base year and four option periods. This is in accordance with the FAR which states, "the total of the basic and option periods shall not exceed 5 years in the case of services, and the total of the basic and option quantities shall not exceed the requirements for 5 years in the case of supplies." [Ref. 7:Part 17.204] NRCC Naples usually awards using these time frames. Other Navy contracting centers award for one base year and a smaller number of option years. [Refs. 9, 14]

#### **7. Contract Administration/Modification**

The Government performs contract administration and monitoring both technically and administratively. Although NRCC Naples is responsible for this aspect, the end users of

the husbanding services, the U.S. Navy ships, provide feedback to NRCC Naples if they encounter any problems. In the port visit report that U.S. Navy ships are required to submit upon departure from the port, one section is devoted to husbanding services comments.

Monitoring also involves formal and informal meetings, ongoing observation of the husbanding agent's performance, and a review of the husbanding agent's quarterly reports.

During this phase, it is possible that a modification to the contract is necessary, especially if it is a new port call for Navy ships. In most cases, these modifications require renegotiation to establish a fair and reasonable price for the task that the husbanding agent is to perform. [Ref. 9]

#### **8. Completion or Termination**

A contract will end in one of two ways: completion or termination. Completion means the husbanding agent successfully provided the contracted services for the specified time duration of the contract. Termination can be for the convenience of the Government if the services are no longer required in a specific port or for termination for default if the husbanding agent failed to meet the terms and conditions of the contract. [Ref. 15:p.261]

#### **E. CHAPTER SUMMARY**

Chapter II identified the background and framework for husbanding service contracts, including the definition of a Navy husbanding agent, his primary responsibilities, the types of services provided, payment procedures, and the organizations which contract for these services. This was followed by a general discussion of the contracting process used within the Federal Government to acquire these services. The next chapter will discuss the

roles and responsibilities of a commercial "port agent," the commercial counterpart of the Navy's husbanding agent.



### **III. THE COMMERCIAL APPROACH**

#### **A. INTRODUCTION**

A thorough understanding of the commercial approach to contracting and managing husbanding services is essential to fully comprehend whether the Navy can benefit from adopting any of these practices. This chapter presents some of the traditional commercial practices within the industry as gathered by the researcher through a review of the literature and interviews. The chapter defines a "port agent," the commercial equivalent of the Navy's husbanding agent, and discusses the relationship between the agent and the principal (shipowner). This is followed by a discussion of the port agent's responsibilities, the traditional payment procedures, and the issue of port agent liability.

Chapter IV examines the current issues concerning Navy husbanding agent contracts and Chapter V presents a commercial case study that illustrates one company's innovative approach to contacting and managing port agents.

#### **B. COMMERCIAL PORT AGENTS**

##### **1. Definition**

"Port Agents" are the representatives of the shipowner, the principal, at the particular port where the agent is employed and are responsible for handling all the needs of the ship during the port visit. [Ref. 16:p. 74]

##### **2. Relationship**

The commercial ship agency relationship, in most cases, arises out of a contract

between an agent and a ship owning company. An agent may be a general agent and have authority from his principal to perform all acts in connection with a particular business, or he may be a special agent appointed to perform a certain act, or a series of acts, in connection with a specific transaction. In the majority of instances, the port agent is considered a special agent. [Ref. 16:p. 74]

The principal and the port agent may enter into a written contractual agreement to define the relationship. For many principals and port agents, however, the terms of the relationship are implied by law and from the business practices prevailing at the port. The duties of the port agent and the principal that are implied by law include the following:

- The port agent must be loyal, meaning not acting for himself, not acting for a party whose interests are adverse to his principal's, not acting for more than one principal unless both parties have been informed and given their consent, and not divulging proprietary or secret information.
- The port agent must give prompt notice of all facts affecting the subject of agency. He must follow his principal's instructions, and failure to do so may make the agent liable for any associated loss the principal suffers.
- The port agent must account to his principal for all money or property entrusted to him and should not commingle the funds of his principal with his own.
- The principal must compensate the agent for the services rendered and must reimburse him for all expenses incurred on his behalf.
- The principal must indemnify the agent for any loss or liability incurred as a result of following the principal's instructions. [Ref. 16:p. 73]

### **3. Responsibilities and Services**

A port agent is responsible for attending to the ship 24 hours a day and should do whatever the shipowner would do if he were on the scene. In practice, the agent is

recognized by all concerned in the port as the shipowner's representative with full authority to make these arrangements. His primary responsibilities include but are not limited to the following:

- arranging and instructing the vessel where to berth or anchor;
- arranging for customs clearance and all other services pertaining to the vessel's movements (entering port, during stay and leaving port), and arranging for contracts for pilotage, towage, line handling, stevedoring for loading and discharging cargo, tallying and ancillary services;
- supervising operations and ensuring efficient dispatch of the vessel;
- attending to ship's husbandry, making whatever arrangements are necessary for crew medical treatment, shore passes and repatriation, bunkering, repairs, and customs clearance of ship's stores and spares;
- preparing and issuing freight documents;
- checking vouchers and rendering disbursement accounts;
- attending to additional services in connection with claims and consular authorities;
- preparing the "statement of facts" and the "notice of readiness" of the port call. These documents record all significant events concerning the vessel's stay in port and the loading and/or discharging of its cargo. This includes details such as shifting times, rain times, and stoppages for equipment breakdowns, ice, and strikes. Copies of the statement of facts and the notice of readiness should be forwarded to the owner and other interested parties immediately after the vessel sails. [Ref. 16:p. 75]

#### **4. Payment Procedures**

Upon notification of a forthcoming visit by a vessel, it is standard industry practice for the port agent to request and receive an advance of funds from the principal to cover the vessel's anticipated expenses in that port. This request for funds is accompanied by an

itemized "proforma" disbursement account which lists the anticipated services and their expected costs. The proforma also includes the name of the bank and account number to which funds are to be remitted. Some principals withhold ten percent of the proforma estimate until the "statement of facts" is received. [Ref. 16:p.76]

During the port call, the port agent is responsible for settling the vessel's accounts with the port authority, the vendors, and anyone else from whom the agent has obtained services for the vessel. When the vessel sails, the port agent is responsible for reconciling the final accounts as quickly as possible, and returning any excess funds or requesting additional funds to cover shortages. [Ref. 16:p.76] Unanticipated events, such as major ship repairs, hazardous waste spills, environmental violations, major medical emergencies, and stowaways can be very expensive and leave the port agent short of funds. In these cases, the port agent must request additional funds from the principal. If the principal refuses to pay, the port agent can petition the court to "arrest ship" to prevent the ship from sailing until the bills are paid. [Ref. 17]

## **5. Liability**

When the port agent arranges for the services required by the principal, it is customary for the agent to make these arrangements "as agents only" of the principal. This includes verbally stating the qualifying phrase "as agents only" in oral contracts and writing it after the agent's signature in written contracts. Failure to do so can expose the port agent to the liability for the obligations of the principal. [Refs. 7, 8]

The issue of "financial liability" as it relates to the debts of the principal was a concern for several of the port agents interviewed by the researcher. In separate interviews,

the port agents agreed that the agent should not be held liable for the debts of the principal as long as the agent properly disclosed the principal he was representing to the "vendor," acted in good faith, and made the arrangements "as agents only" of the principal. The port agents believed that this was fairly well understood and adhered to by businesses within the industry, such as tug companies and pilots. The "financial liability" concern for the port agent arises when dealing with companies and institutions outside the normal scope of port operations, such as hospitals and security firms. On occasion, these businesses have attempted to hold the port agent responsible for debts incurred by the principal the agent represents. [Refs. 7, 8, and 18]

In an example given by one port agent, the ship's master, of a principal the agent was representing, required emergency medical treatment during a routine visit to a port. The service was arranged by the port agent in a timely manner "as agent only" of the principal. Several months later, the hospital was unable to collect from the principal and sought reimbursement from the port agent. The port agent refused on grounds that he acted "as agent only" of the principal, however, the hospital is still pursuing the agent for the outstanding debt. [Ref. 17]

In another example, a stowaway was found on a vessel during a port visit in the United States. The Government officials required the port agent to make arrangements to have the stowaway held under guarded conditions until the situation was resolved. The port agent acted in good faith and "did what the principal would have done" and placed the stowaway under guard. The situation was resolved in several weeks but the security facility looked to the port agent for payment. The port agent has been unsuccessful in collecting

money from the principal. [Ref. 17]

According to Virginia Redstone, Executive Director of the Association for Ship Brokers and Agents, ship agents are coming under increasing attacks by businesses to be responsible for the debts of their principals. The port agent is often the easiest target since ships come and go, but the port agent remains. The increasing frequency of these occurrences warranted the topic of "Agent Liability" to be discussed during an international conference on Ship's Agency that was held in London, England in September 1996. [Ref. 19]

In disputes involving the principal and a vendor (whose services were arranged by the port agent), the port agent will often act as a mediator and try to resolve the dispute in a manner that leaves all parties satisfied. In an example cited during an interview with a port agent, the port call expenses exceeded the amount of funds that were advanced to the agent by the principal. The tug company provided outgoing services to the principal's vessel, which were arranged by the agent, however, the principal claimed the services were unsatisfactory and refused to pay the port agent the additional funds to cover the tug expenses. In turn, the port agent did not pay the tug company. The tug company did not pursue legal action against the port agent, but did request the port agency's legal assistance in obtaining the funds from the principal. The port agency would not sue a principal on behalf of the vendor, however, it did offer its services as a mediator to resolve the dispute. [Ref. 17]

## C. SUMMARY

Chapter III presented the commercial approach to contracting and managing port agents to serve as a basis for understanding the similarities and differences between the

private sector's methods and the Navy's methods. The chapter began by defining a commercial port agent and discussing the agent-principal relationship. Many of the duties of the port agent were implied by law or implied from the customs and business practices of the port. The chapter also examined the industry standard for payment procedures and discussed the issue of agent liability.

Chapter IV will examine the current issues concerning Navy husbanding agent contracts. A presentation of pre-award and post award administration difficulties will be made highlighting the information gathered in personal interviews and the literature review.



## **IV. ISSUES WITH HUSBANDING SERVICES CONTRACTS**

### **A. INTRODUCTION**

This chapter provides a background and analysis of the issues associated with husbanding services contracts. The discussion begins with a presentation and analysis of the difficulties encountered during the pre-award phase of the husbanding services contract. This is followed by a separate presentation and analysis of the difficulties encountered during the post-award phase. The information collected during the literature review and during interviews with commercial firms is incorporated throughout the presentation and analysis sections of this chapter.

### **B. PRE-AWARD ISSUES**

This section presents and analyzes the difficulties encountered during the pre-award phase of Navy husbanding services contracts. In areas where a commercial approach was clearly identified by the researcher, a separate sub-section was created to discuss this commercial approach. The data were gathered from a combination of personal and telephone interviews with various Navy contracting activities and commercial firms as well as from a review of the literature. The literature consisted of documents relating to the general defense contracting process. The researcher could not locate any literature discussing the pre-award issues and difficulties specifically associated with Navy husbanding service contracts.

## **1. Discussion of Pre-award Difficulties**

### **a. *Husbanding Services Contracts Are Time Consuming to Award***

(1) Government Approach. Government contracting personnel cited the lengthy and time-consuming process of awarding husbanding agent contracts as a major problem. The main reason indicated was that potential offerors, although probably technically competent, appeared to be very inexperienced in putting together Government proposals. In fact, many of the offerors had numerous years experience in the private sector as successful commercial port agents. As a result, this led to numerous question and answer periods and frequently caused the solicitation period to be extended. The average time to award a new husbanding services contract was six to nine months.

The average solicitation document for a single husbanding services contract exceeded 100 pages. Many offerors found the length of the solicitation, the number of clauses, and the legal language of the solicitation both confusing and intimidating. These concerns were exasperated by the language and cultural barriers of the different countries. In many situations, this created a misunderstanding by the offeror of the Government's requirements or a misunderstanding by the Government of what the offeror was trying to communicate in his written proposal, thus causing delays in the award process.

NRCC Naples has taken action on several recent solicitations to reduce the Procurement Administrative Lead Time (PALT) from the norm of six to nine months down to nine weeks or less. This was accomplished by streamlining the solicitation document to make it conform more to commercial standards, and through the use of on-site oral presentations. These presentations were conducted at the port and/or the port agent's office

by the agency personnel who would perform the husbanding services. [Ref. 9]

(2) Commercial Approach. The commercial contracting firms indicated that they were able to contract for husbanding services in a relatively short time span compared to the Government. This was supported by the researcher's interviews with the husbanding/port agents, who indicated that although the time period varied between companies, in general, contracts were agreed to in a period of several days to several weeks.

One reason why the commercial firms were able to contract quicker was that each commercial port agency maintained and utilized a standard "Terms and Conditions" or "Price List." When a commercial firm requested port agent services, the port agency literally faxed their "Terms and Conditions" sheet to use as a basis for the contract. Additional services, considered unique to that commercial buyer, would be negotiated and included as an addendum.

Commercial port agencies indicated that the use of oral communications in all aspects of the contracting process significantly contributed to the reduced time frame, which reduced their costs. According to one port agent,

... preparing Government proposals takes a significant amount of time, manpower and money. We prepared a proposal for one Government command at an expense to our company of about \$12,000.00 over an eight week period. Several months later, the Government activity canceled the solicitation. If all proposals cost us this much, we would not be able to stay in business. [Ref. 8]

**b. *Market Research Results Are Not Consistent With What Services Are Really Available at the Port***

The FAR requires Federal agencies to:

Conduct market research appropriate to the circumstances: (i) before developing new requirements documents for an acquisition by that agency; (ii) before soliciting offers for acquisitions with an estimated value in excess of the simplified acquisition threshold . . .

Use the results of market research to: (i) determine if sources capable of satisfying the agency's requirements exist . . .

Not request potential sources to submit more than the minimum information necessary. [Ref. 6:Part 10.001 (a)]

In the area of husbanding services contracts, market research consists of surveys to agents, port authorities, and vendors in conjunction with actual port visits to determine what types of services are available at the port. Government contracting personnel claim that the port surveys indicated that there were a much greater variety and depth of services available in the ports than was later discovered. Part of the problem they surmised, was a cultural difference in that many of the authorities in the various countries did not want to say "no" or "that service is not available." Another part of the problem was that each port authority, husbanding agent, and vendor had their own individual interpretation of what would suffice to fill the Government's requirement. A third part of the problem was that many of the husbanding agents and vendors claimed that although they did not possess a particular Government requirement at that specific port, such as adequate "fenders or camels," they did have "extras" at another port and could easily relocate these "extras" if they were awarded the contract. All three of these reasons contributed significantly to

inconsistent market research results. This also contributed to time delays when awarding the contract. On several occasions, Government contacting personnel insisted on either pictures or additional site inspections to ensure that husbanding agents could really produce some of the items.

*c. Fair and Reasonable Price Determination*

The FAR states that "the Contracting Officer shall purchase supplies and services from responsible sources at fair and reasonable prices." [Ref. 6:Part 15.802 9(a)] Government contracting personnel have been challenged in determining fair and reasonable prices for several items in the contract. This determination is difficult for several reasons. First, there is limited competition in some ports. On average, two to five offerors submit proposals for each husbanding services contract. Some agents are hesitant to do business with the Government because the solicitation and language of the solicitation is intimidating and litigious, the cost of preparing written proposals is too high in terms of manpower and money, and the number of ports calls is not guaranteed and subject to many changes.

Secondly, the vast differences in the ships that visit these ports (e.g., crew size, ship size, sewage disposal requirements, fender requirements, waste oil disposal requirements) make it impossible to identify and price everything the ships will need in all the ports.

The third factor making it difficult to determine fair and reasonable prices is the existence of port tariffs, many of which change on a quarterly or semi-annual basis. This makes it impossible for the contracting activity to get fixed unit prices or competition on these items.

Interviews with the commercial ship operator and the commercial port agents confirmed this difficulty as an industry wide issue. There was general agreement among the Government contracting personnel, the commercial ship operator, and the commercial port agents that there was no way to establish a sound basis for determining fair and reasonable prices for port tariff items because they are set and controlled by monopolistic port authorities. The commercial firms seemed to accept this as a cost of doing business in that port.

NRCC Naples is in the process of developing the Cost Reporting, Analysis and Forecasting (CRAFT) system in an effort to monitor port costs. The purpose of CRAFT will be to provide easy access to current and accurate data on contract prices, port tariffs, and other port costs in each port visited by U.S. Navy ships. These data will be used to generate reports on historical costs and to forecast future port costs. The total CRAFT system is expected to consist of approximately twelve separate databases. The information will be primarily collected through electronic means, such as SALTS for Navy ships and the Internet for Husbanding Agents.

## **2. Analysis of Pre-Award Difficulties**

This part of the chapter analyzes the pre-award difficulties associated with husbanding services contracts. Table I is provided to consolidate the findings and to serve as a ready reference for referral during analysis.

**Table I**

**SUMMARY OF FINDINGS OF PROBLEMS  
NOTED DURING PRE-AWARD PHASE**

<b>PROBLEMS NOTED DURING PRE-AWARD PHASE</b>	
a	Husbanding Services Contracts Are Time Consuming to Award
b	Market Research Results Are Not Consistent with the Services Available at the Port
c	Fair and Reasonable Price Determination is Challenging

Source: Prepared by Researcher

The time-consuming nature of awarding husbanding contracts appears to relate back to a systemic problem caused by the formality of the Government contracting process that is exasperated by the language and cultural barriers of contracting with different countries. The literature supports the notion that the formality of the Government contracting process, with its requirement to conduct the majority of communications in writing and its numerous legal clauses, significantly slows the process. "When the Government acquires an item from a commercial supplier, the contract developed is usually enormously detailed and complex when compared with the usual commercial contract." [Ref. 4:p.A-3]

This finding indicates that the Government can control a significant amount of the time delays caused in awarding husbanding services contracts because the locus of the problem resides with the Government. This problem may be mitigated by increasing the use of on-site oral presentations and by streamlining the solicitation document to mirror a more commercial style.

The authorization to use oral presentations is currently being proposed for inclusion in the rewrite of the Federal Acquisition Regulation (FAR), Part 15. Although oral presentations are not prohibited, their exclusion from the FAR did not encourage widespread use throughout contracting activities. [Ref. 20:Part 15.104]

NRCC Naples' recent and successful use of on-site oral presentations to reduce the PALT directly supports this finding. These on-site oral presentations supplemented the husbanding agent's written proposal and enabled the source selection evaluation team members to assess the husbanding agent's facilities first hand. [Ref. 9]

If the widespread use of on-site oral presentations proved too costly, another alternative would be to require the husbanding agencies to submit a one hour "walking tour" video of the facilities and key items they will provide. Although not as effective as an on-site oral presentation, this oral video presentation would provide the source selection evaluation team with additional information, other than the written proposal, to evaluate the different husbanding agents.

In addition to reducing the PALT and thereby mitigating a pre-award problem, *on-site* oral presentations also have the potential to reduce contract administration problems. An on-site oral presentation by the husbanding agent provides the source selection evaluation team with an opportunity to view the physical/operating condition of key items such as: water taxis, buses, trash barges, and sewage barges. This "initial quality review" by the contracting activity, may reveal potential problem areas that would have never been discovered during a source selection process purely based on written proposals. The contracting activity would then have a "heads up" on potential contract administration concerns and could focus their

efforts in these areas accordingly. Although the initial cost for conducting these on-site oral presentations would be a burden for the Navy, the long term benefits would most likely offset these costs.

Streamlining the solicitation and contract documents to mirror a more commercial style would also help to reduce the time to award a contract. This may be difficult, however, as many of the requirements in a Navy husbanding contract are written in detail out of concern for Navy crew safety or to ensure uniform interpretation of various requirements in the different countries and among the different cultures. Several items in the contract that contain detailed specifications for safety purposes include: water taxis; potable water; and fresh fruit, vegetables, and bread. The standards for these products differ significantly from county to country and for Navy crew health and safety purposes, it is imperative that these items conform to the specifications in the solicitation document.

Other terms in the contract are specifically defined to ensure there is no doubt about their interpretation and meaning. This is particularly important since English is not the primary language in many of the ports and the meaning of various terms could be misinterpreted unless specifically defined. An example of this would be "refuse." The Navy uses the term "refuse" to mean all trash including: garbage, ashes, debris, and rubbish with the exception of hazardous material. By specifically defining these terms in the contract, the contracting activity is setting a uniform interpretation of the terms in an attempt to prevent contract administration problems. It is much more efficient to thoroughly define these terms in the solicitation and the contract, then to try to resolve disputes with individual husbanding agents over what is considered authorized trash each time a different ship pulls into port.

Problem (b) is not directly addressed by the literature. The literature addresses the need for Federal agencies to analyze the results of their market surveys, but does not specifically provide step-by-step instructions. The requirement for Federal agencies to conduct market research is addressed extensively in the literature. All the Government contracting personnel agreed that conducting market research was imperative and did in fact perform market research.

Several husbanding agents agreed that there is a strong tendency to answer these written or oral port surveys in a “positive” manner because they want to encourage the Navy to visit their ports. The husbanding agents know that for a price, almost any service can eventually be provided in these ports. This includes transporting water barges and sewage barges in from other ports at a high cost.

One alternative method to mitigate the issue of inconsistent market research is to conduct extensive on-site port visits to validate the preliminary results of the initial written port surveys and telephone calls. Another alternative is to outsource all, or part of, the market research function of new ports to an independent husbanding agent. A requirements type contract could be written with a company for these research services.

Problem (b) was unexpected at the outset of the research and appears to be limited to specific ports. Although there are several options available to alleviate the inconsistencies in the market research results, the cost of obtaining this “perfect information” must be taken into consideration.

Problem (c) was identified in the literature and by the commercial firms interviewed as a major issue. The implementation of the CRAFT system will provide an additional tool

for the Government contracting activities to utilize in their determination. By utilizing the CRAFT system, the Navy can readily compare contract prices, port tariff prices, and actual prices charged by the husbanding agent. This information will provide the contracting activity with a solid data price to use for forecasting. Although this information will not determine whether the prices are "fair and reasonable" in every aspect, it will provide trends in the current "market prices" being charged across all the ports. With this information, the Navy can conduct price analysis across the various ports to determine high cost ports.

Government contracting personnel appear to have a greater difficulty in accepting the non-negotiable port tariff structure, and are currently investigating alternative methods for the possibility of negotiating these tariffs. One alternative might be for the Government to attempt to negotiate with either the host country or the local port authorities in an effort to reduce the port tariff for U.S. Navy ships. Another alternative would be to attempt to negotiate a "set price" for U.S. Navy ships that would correspond to the contract year. This would prevent the numerous price fluctuations in the port tariff items during the fiscal year.

The issues identified in the pre-award phase are being actively worked in the Government contracting activities for potential solutions. It is clear that the Government contracting activities are familiar with the rules and regulations of the contracting process, but are searching for more effective ways of awarding and administering husbanding services contracts.

Although the Government may not have direct control over all the pre-award problems identified, it does exert significant control over problems (a) and (b), and can act as a driver in attempting to influence problem (c). The next section will discuss and analyze

the issues associated with the post-award phase of husbanding services contracts.

## C. DIFFICULTIES ENCOUNTERED - POST-AWARD

This section presents and analyzes the difficulties encountered during the post-award phase of Navy husbanding services contracts. The information was obtained through a combination of personal and telephone interviews with various Navy contracting activities and commercial firms as well as from a review of the literature. The literature consisted of documents relating to the general defense contracting process. The researcher could not locate any literature discussing the post-award issues and difficulties specifically associated with Navy husbanding service contracts.

### 1. Discussion of Post-Award Difficulties

#### a. *Monitoring Port Costs*

As mentioned in the previous section, the existence of port tariffs, many of which change on a quarterly or semi-annual basis, makes it an administrative burden to accurately monitor the costs of these items. Many of the port tariff items are computed using a formula in which the "gross tonnage" or the "length" of a ship is a key factor. Therefore, the price of the same port tariff item in the same port can vary significantly depending on the ship's size. For example, in some ports, U.S. Navy ships are exempt from paying harbor dues/wharfage fees. In other ports, harbor dues/wharfage fees are calculated by either the "gross tonnage" or the "length of the ship." Therefore, two different U.S. Navy ships, a frigate and a carrier, visiting the same port at the same time, may each pay a different harbor/wharfage fee.

Another factor that affects the price of a port tariff item is the day of the week and the time of day the service is requested. This is common with associations such as Pilot or Tug Associations. In many ports, this breaks down to a tiered pricing structure governed by the day of the week and the time of the day. The week is divided into three categories: Monday - Friday (normal); Saturday; and Sundays and holidays, with each category having a separate pricing structure. Additionally, the day is usually divided into three separate shifts: 0800-1600, 1601-2400, and 0001-0759 with each shift having a separate pricing structure.

Additionally, the vast differences in the ships that visit these ports (e.g., crew size, ship size, sewage disposal requirements, fender requirements, waste oil disposal requirements) make it difficult to accurately monitor every price of every item for every ship.

As previously discussed, NRCC Naples is in the process of developing the Cost Reporting, Analysis and Forecasting (CRAFT) system in an effort to monitor port costs. The purpose of CRAFT will be to provide easy access to current and accurate data on contract prices, port tariffs, and other port costs in each port visited by U.S. Navy ships. These data will be used to generate reports on historical costs and to forecast future port costs. The CRAFT system is expected to be implemented in January 1997.

*b. Payment Problems*

As discussed in Chapter II, payment for services rendered by the husbanding agent and his vendors is made upon completion of the port visit. In many instances however, the husbanding agents are not able to provide the ship with all the bills prior to the ship leaving port. This is the case for telephone and other communication charges as well as other non-contract item (specialty) requirements that may have been provided during the port visit.

In these cases, and in any other case where the husbanding agent is unable to present an invoice prior to the ship's departure, the husbanding agent forwards the invoice to NRCC Naples who acts as an intermediary between the ship and the husbanding agent to ensure that the bill is properly paid. This process is administratively time consuming for the Government contracting staff and usually takes several weeks. In fiscal year 1996, NRCC Naples processed approximately 450 unpaid bills.

During the 1996 Fleet Support Conference in Barcelona, Spain, the topic of "Bill Paying Issues" was presented to address these concerns and to solicit possible solutions. One possible solution being pursued by NRCC Naples, the Type Commanders and the Naval Supply Systems Command is to allow the ships to use the International Merchant Purchase Authorization Card (I.M.P.A.C.) credit card to pay these outstanding bills since most of the bills are under the \$2,500.00 threshold. This appears to be a workable solution, although the husbanding agents expressed much concern that they would have to pay the 2-3% credit card fee. If the fee were waived through an international agreement, the husbanding agents would readily accept the I.M.P.A.C. credit card.

*c. Large Number of Contracts to Administer*

The administration portion of a husbanding services contract is a time-consuming task due to the issues surrounding port tariff items, variances in costs due to ship size and crew size, and the variances in the use of services by the individual ships. Adding to this burden is that the U.S. Navy is currently managing approximately 55 separate husbanding agents covering even a greater number of ports. Each of these contracts must be renewed under an option (if available) or solicited as a new contract. The FAR restricts the

award period for service contracts to a total of one base year and four option years.

[Ref. 6:Part 17.204 (e)]

*d. Partial Non-performance by Husbanding Agents*

The U.S. Navy does not guarantee a minimum number of calls to a specific port during a contract period. During the solicitation period, the historical number of calls to a specific port is provided by the contracting activity. In some cases, the actual number of calls to a specific port does not always match the historical prediction. In ports that experience prolonged periods of low ship's visits, husbanding agents are tempted to relocate some of their assets (fenders, barges, camels) to ports with a higher frequency of ship's visits. As a result, several husbanding agents have been caught short when the frequency of U.S. Navy visits to that port suddenly increased again. In these cases, the husbanding agents were not fully able to perform to the contract requirements.

*e. Total Estimated Port Costs Not Provided to User in Advance of Port Call*

When ships are scheduled to make a port call, they will submit a logistics requirements (LOGREQ) via Naval Message to the appropriate Government activity requesting the services they will need at the port. The LOGREQ is normally submitted 10 to 14 days prior to a ship making a port visit. Upon receipt of the LOGREQ, the Government activity forwards a copy of the message to the husbanding agent so that he can begin preparations. When adequate time is available, the husbanding agent will provide the Government activity with specific information regarding the ship's requirements, and a reply message will be sent to the ship. In some ports, the reply will include the prices, size, and

availability of selected items such as buses and water taxis. It is very rare, however, for a ship to receive a complete breakdown of the anticipated costs of the ports. Since the LOGREQs and replies occur within a two week period prior to a ship visiting a port, it is very difficult for ship Supply Officers to accurately budget for port costs much in advance.

*f. Schedule Changes and Communication Delays*

U.S. Navy ships visit ports for a variety of reasons including diplomatic and official purposes, military exercises, logistical support (replenishment, voyage repairs), and quality of life. Ships' schedules, however, change frequently in reaction to world events. During fiscal year 1996, Sixth Fleet had 121 changes to the fleet schedules, with each schedule change often affecting multiple ships. These changes are of a concern because husbanding agents will often begin preliminary preparations for a ship's visit, only to be canceled several days later. During the 1996 Fleet Support Conference, several husbanding agents expressed this concern to the NRCC Naples and Sixth Fleet representatives. One husbanding agent said that his last four scheduled U.S. Navy ship visits were canceled on short notice. Government activities did, however, appear to be very prompt in their notification of ship visit cancellations.

In several other instances, the husbanding agents claimed that they were not notified of the ship's requirements until less than 48 hours before the ship was scheduled to arrive. This caused problems for the husbanding agent who had to work harder to adequately meet the ship's requirements in a shorter time period. This short notice also translated into higher prices for non-standard items for the ship.

**g. No Cost Savings Incentive Program**

The unique nature of Navy husbanding services contracts often does not provide any incentive for the husbanding agent to seek additional cost savings for the Government. The husbanding agent is provided a fixed fee for his service, while the specific services he arranges through vendors (e.g., water taxis, buses, lighterage, pilots, tugs) are billed at actual cost, with no markup allowed by the husbanding agent. Any cost benefits the husbanding agent achieves through negotiating better contracts with his vendors or subcontractors is supposed to be passed on directly through to the Government. The husbanding agent does receive any direct monetary benefit for obtaining these discounts.

**2. Analysis of Post-Award Difficulties**

This part of the chapter analyzes the post-award difficulties associated with husbanding services contracts. Table II is provided to consolidate the findings and to serve as a ready reference for referral during analysis.

Problem (a) is directly related to the number of different agents, ports, ship types, and varying port tariffs. The difficulty in monitoring port costs was also evident in the commercial sector. Although this problem is a result of the way port costs are structured, the contracting activity has the responsibility to put controls in place to try to effectively monitor these costs. The level of effort expended to monitor port costs, however, should correlate to the expected cost savings and benefits.

NRCC Naples' recent endeavor in establishing and implementing the CRAFT system indicates that the Government can implement procedures to more effectively monitor port costs. The CRAFT system will provide visibility over the port costs for all Navy ships

visiting ports under the cognizance of NRCC Naples. Additionally, it will provide NRCC Naples with "real time actuals" on port costs vice the "delayed" data that NRCC Naples was collecting on from its quarterly reports from the husbanding agents.

An alternative method is to outsource the task of compiling the port cost data to an independent firm, preferably a husbanding agency, who could collect and manage this database for the Navy. This would provide the Navy with the same benefits as the CRAFT system, but would pass the work onto a contractor, leaving more time for the Navy to focus on conducting the analysis of the information.

**Table II**

**SUMMARY OF FINDINGS OF PROBLEMS  
NOTED DURING POST-AWARD PHASE**

<b>PROBLEMS NOTED DURING POST-AWARD PHASE</b>	
a	Monitoring Port Costs
b	Payment Problems - Unpaid Bills
c	Large Number of Separate Husbanding Services Contracts to Administer
d	Partial Non-Performance by Husbanding Agents
e	Total Estimated Port Costs not Provided to User in Advance of Port Call
f	Schedule Changes and Communication Delays
g	No Cost Savings Incentive Program

Source: Prepared by Researcher

A formalized system such as CRAFT or an "outsourced" system would also provide the Fleet and Type Commanders with greater visibility over the individual port costs. In addition to using this information for budgeting, the visibility that monitoring these port costs provides can lead to decisions about the future technology the Navy should invest in. For example, consistently high trash disposal costs may lead to an increase in the amount of Research and Development (R&D) in technology to provide more efficient and reliable trash compactor units aboard ships.

Problem (b) is a result of the relatively short time period of port calls and the delay problems inherent in communication charges. The current method of paying for the services after they are rendered, provides the husbanding agent with enough incentive to have as many bills presented paid prior to a ship leaving port. In the case of communication charges, it is not the fault of the husbanding agent, the ship, nor the contracting activity, but rather a result of using the current technology. As technology continues to change, however, it is possible that the billing cycle for communication charges will decrease thus eliminating this problem.

This finding indicates that although the problem cannot currently be prevented, the use of alternate methods of payment, such as the I.M.P.A.C. credit card, has the potential to alleviate the administrative burden associated with the current method.

Problem (c) is a result of the way in which husbanding agent contracts are solicited. This problem also exists in the private sector where port agent contracts are solicited on a port-by-port arrangement. In the general context, this problem is evident in many Government and commercial contracting divisions, where items are purchased on a case-by-case basis rather than being grouped together.

This finding initially indicates that the Government may be able to control the number of individual husbanding agents by groupings ports together by country or region, prior to soliciting bids. This "regional husbanding agency concept," where one husbanding agency is responsible for all the ports in an entire region, is currently being used in the commercial sector and has the potential to provide benefits to the Navy. This concept is discussed and analyzed in detail in Chapter V.

The contract time period restriction, of one base year and up to four option years, also adds to the burden of administration for the Navy. The Navy must either recompete or renew options for all the husbanding services contracts it manages every year. This is a restriction imposed by laws and regulation that does not exist in the commercial sector. The removal of this time limitation would allow the contracts to be awarded for greater than a one year base period. One possibility is to allow for a base period of up to three years, and 3 two-year option periods, for a total of nine years. Although there would still be a large number of individual husbanding contracts to administer, a longer time period would significantly reduce the recompetition and renewal workload.

Problem (d) is a direct breach of the contract terms by the husbanding agent. Although the husbanding agent most likely initially acted in good faith, the lack of business in that specific port may have caused him to cut his losses and seek to maximize his profits by shifting his assets to more lucrative ports.

The husbanding agents most likely to experience this problem are those with a heavy percentage of Navy business and a relatively low percentage of commercial business in a particular port. One solution might be for the Navy to attempt to identify these potential

"problem" ports and solicit offerors using a slightly different set of criteria. In low frequency ports, the source selection criteria could consider the husbanding agent's commercial business base in that port. A husbanding agency with a heavy commercial business base is more unlikely to shift assets out of that port than a husbanding agency with a relatively low commercial business base but a high percentage of Navy business. This method, however, has the potential to restrict competition, encourage the remaining offerors to bid high prices, and increases the likelihood of protests.

Another solution might be to place Government-Furnished Equipment (GFE), such as fenders, camels, and barges in these ports for husbanding agents to utilize. This is also a very costly approach for the Navy. Providing several million dollars worth of GFE at a low frequency port may not be the wisest investment.

Within the current environment, the best solution might be to carefully monitor the ports that experience significant, prolonged decreases in Navy ship visits, and to keep the lines of communication open between the contracting activity and the husbanding agent. Chapter V discusses a more innovative approach to awarding and administering husbanding services contracts and attempts to resolve this issue through the use of a regional husbanding agency.

Problem (e) has recently become a more important issue due to the shrinking defense budget. NRCC Naples is actively pursuing the implementation of the CRAFT system to approach this problem through the use of tracking and forecasting port costs. This appears to be an area where the Government can make significant progress in developing both a short and long range forecasting system. To be successful, the contracting activity, the husbanding agent and the ship will all need to work closely together.

This finding indicates that the Government can mitigate or eliminate the problem of not being able to estimate port costs through the implementation of a formalized system such as CRAFT. As discussed in post-award problem (a), the CRAFT system will be set up to monitor port costs using "real time actuals." This will allow NRCC Naples to forecast the port costs for the same type of Navy ships visiting the same ports. Chapter V discusses the concept of "port cost templates," which would be the format used to provide the estimated port costs to the Navy ships. These port cost templates can be developed by NRCC Naples in conjunction with the husbanding agents and then placed on the Internet for easy access by the ships, the comptrollers, and the Fleet and Type commanders.

Chapter V examines the same concept of "port cost templates" but under a fundamentally different approach where the husbanding agency, not the buying activity, is responsible for developing and updating the templates.

Problem (f) is not under the direct control of the husbanding agent, the contracting activity nor the ship. The best that any of these activities can do under the current set-up is to attempt to expedite the communication process when changes occur.

One method of speeding up the communication process is through the use of SALTS and the Internet. All the husbanding agents under the cognizance of NRCC Naples are currently connected to the Internet. Although the Naval message is the official means of communication, husbanding agents do not have direct access to this system and rely on the shore based Government command to forward (fax) them messages concerning ship's arrival schedules in a timely manner. When schedule changes occur, in addition to sending a Naval message, the ship could send the husbanding agent an e-mail via the SALTS system as a

"heads-up." Although this is an added communication expense, the quick notification may prevent the husbanding agent from committing to any services on the ship's behalf.

Problem (g) is supported by the literature and interviews with the commercial firms. Unlike commercial firms, the Government cannot make the commitments necessary to establish and maintain long-term supplier relationships. An ongoing relationship with a supplier provides a commercial buyer leverage to negotiate favorable rates for standard purchase agreements and volume purchases. The Government is restricted by legislation and regulation in its ability to establish supplier relationships beyond the boundaries of a specific contract. [Ref. 4:p.4-2]

This finding indicates that the laws and regulations have the potential to discourage the husbanding agents from partnering with the Government and other contractors; and from engaging in long term contracts with its vendors for the benefit of the Government. As previously stated, the FAR restricts the award period for service contracts to a total of one base year and four option years. [Ref. 6:Part 17.204 (e)]

This finding also indicates that the Navy may be able to achieve additional cost reductions through the use of cost savings incentives. One might consider using a hybrid Fixed-Price-Award-Fee (FPAF) type contract vice the typical Firm-Fixed-Price (FFP) contract. The award fee could be distributed on the basis of immediate cost savings achieved through negotiations with the husbanding agent's vendors and for the implementation of "programs" that do not result in any immediate cost savings but have long run savings associated with the specific actions.

#### **D. SUMMARY**

Chapter IV presented a comprehensive view of the husbanding services contract difficulties including an analysis of the problems associated with pre-award and post-award difficulties. The analysis was conducted to help understand the probable reasons for the difficulties and to serve as a basis for developing recommendations to assist in mitigating these problems where possible.

Chapter V will present and analyze a commercial case study that illustrates one company's innovative approach to contracting and managing port agents. This company's approach differs significantly from the traditional approach found in the literature and during the researcher's interviews.

## **V. COMMERCIAL CASE STUDY**

### **A. INTRODUCTION**

This chapter presents and analyzes a case study of one commercial company's innovative approach to awarding and administering husbanding services contracts. This company's approach differs significantly from the traditional approach found in the literature and during the researcher's interviews. The first part of the chapter presents the case between Shipper-A, the commercial ship operating company, and Agent-A, the husbanding/port agency. The names of both companies have been concealed at their request. The second part of the chapter analyzes the applications and the barriers the Navy may encounter if they choose to adopt this new approach. The information provided in the case study was collected during a series of interviews by the researcher.

### **B. CASE PRESENTATION**

#### **1. Background**

This case study presents an overview of the partnership between a commercial ship operating company (buyer) and a husbanding/port agency (seller) that radically transformed the ship operator's international port agency structure. The partnership is a proactive attempt to streamline administrative procedures, simplify cash management, enhance communications and the exchange of information, and provide a consistent level of specialized port agency service within specific theaters of operation. [Ref. 21]

The ship operating company (Shipper-A) is a large American oil firm that employs

more than 1100 agents world-wide, in addition to operating its own port offices in various key locations. [Ref. 15] The husbanding agency (Agent-A) is a large European company with a staff of 4000 people and over 250 offices located in more than 40 countries. On average, Agent-A handles approximately 32,000 vessel port calls around the world annually. Agent-A is considered one of the "global mega-agencies." [Ref. 22] Within the general business community, both firms are recognized as leaders or strong contenders within their respective markets.

Prior to the formation of the partnership, Agent-A presented their "Global/Regional Agency Management Concept" of a single world-wide agency to cover all of Shipper-A's ports. Shipper-A was currently contracting with a fragmented, generalist network of independent agents and was faced with high remittance costs, extensive communications, burdensome administration, and inconsistent service. There were significant problems involved with tracing and controlling the millions of dollars disbursed through the hundreds of agents with whom they contracted. [Refs. 23, 24]

## **2. Solicitation Process**

In January 1996, Shipper-A solicited bids for its "regional port agency management concept." At the time of solicitation, Shipper-A had approximately 1100 agents operating world-wide in addition to its own port offices. Shipper-A's plan was to reduce the number of port agents and to disestablish its own port offices including those in the United States. Shipper-A specifically requested offers from the "global agencies" or the "mega-agencies." This information was gathered from their market research. [Ref. 24]

### **3. Source Selection**

Potential offerors (agents) were evaluated on the basis of the following criteria:

- Service to vessels
- Competitive cost
- Supplier cost reduction
- Communications
- Port information and updates, industry and Government relations
- Quality management
- Simplification of funds flow
- Service to Shipper-A
- Safety and environmental policy
- Business references
- Ability to reduce vessel costs [Ref. 25]

In May 1996, Shipper-A selected five separate husbanding/port agencies, on the basis of their "tenders," to award these regional port agency contracts. Agent-A was one of the five port agencies chosen and was awarded approximately 70 percent of the network port calls. Each of these five husbanding agencies were separately brought to Shipper-A's headquarters for an intensive week of discussions to finalize the terms of the contracts and the partnership agreement. Once this was completed, formal contracts were drawn up and these five agencies became Shipper-A's alliance-partnership teams in its "Agency Alliance." [Refs. 24, 26]

Each of the five agencies then had only six weeks to bring the regional port agency management concept from "theory" to implementation. On July 1, 1996, Shipper-A switched from 1100 agents to five agents. Additionally, they disestablished their own port offices (including those in the U. S.), sold off the associated infrastructure, and turned these operations over to Agent-A. [Refs. 24, 26]

#### **4. The Contract**

The contract between Shipper-A and Agent-A, who was awarded approximately 70 percent of the network port calls, was a *seven page* Agency Agreement covering the following areas:

- Introduction
- Article 1 - Appointment of Agent
- Article 2 - Agent-Affiliated Companies and Sub-Agents
- Article 4 - Remuneration
- Article 5 - Reimbursements
- Article 6 - Payment of Funds
- Article 7 - Special Provisions and Liability
- Article 8 - Validity and Termination
- Article 9 - Notices
- Article 10 - Law
- Article 11 - Arbitration
- Article 12 - Force Majeure

- Article 13 - Variations
- Article 14 - Assignment [Ref. 26]

In researcher interviews with Shipper-A and Agent-A, both companies emphasized that their relationship was one of a proactive alliance-partnership team, and the contract did not spell every possible duty of a port agent. The contract specified that Agent-A must carry out the normal functions of a port agent and then clarified any duties that were particular to Shipper-A. The contract was awarded for a period of three years with termination criteria incorporated into Article 8 of the Agency Agreement. [Ref. 17, 24]

## 5. Key Concepts

There were several key concepts within the Agency Alliance that are of significance. They are: simplified money management, reduced administration, port cost templates and variance analysis, streamlined communications, and teaming.

### a. *Money Management and Financial Hubbing*

One of Shipper-A's objectives was to simplify the monetary transactions associated with port calls and to tighten up control procedures. Under the traditional approach of doing business with separate port agents in each port, the process was extremely inefficient and costly. For example: upon notification that Shipper-A's vessel was pulling into Port 1, the port agent would send a proforma of the estimated expenses and request an advance of funds to cover the expenses of that port call. Shipper-A would forward the funds to the agent prior to its ship making the port call. The ship would then make the port call and sail, but the final account reconciliation of port costs would take anywhere from 30-90 days

after the ship departed, depending on the port and the agent. Shipper-A lost control of these funds during the reconciliation process. Additionally, many of the invoices received by Shipper-A were not written in English nor converted to U.S. dollars which caused numerous auditing difficulties. [Ref. 24]

Complicating this process was that ship schedules were constantly changing due to market demands. In cases where there were last minute changes to the schedule, Shipper-A often had to advance additional funds to a different port agent to accommodate the schedule change. For example, if a ship was scheduled to visit Port 1, an advance of funds was made to the agent representing Port 1. If the ship changed schedule and decided to visit Port 2 instead of Port 1, an advance of funds had to be made to the agent representing Port 2. If the anticipated costs were \$100,000 for each port, Shipper-A now had a total of \$200,000 outstanding prior to even pulling into port. It would often take several days to a week to recoup the money from the agent in Port 1 and between 30 - 90 days for the final reconciliation of expenses from Port 2. The cost of money during these periods quickly added up to significant amounts. [Ref. 24]

The money management and financial hubbing concept of the regional port agent alleviates many of these problems, simplifies the process for Shipper-A, and saves money. Instead of worrying about advancing funds to 1100 agents around the world, Shipper-A now only wires money to a maximum of five banks, one for each of the five agencies.

In the case of Agent-A, when funds are needed, Agent-A's U.S. financial headquarters will request funds from Shipper-A's U.S. headquarters via e-mail. Shipper-A will then wire the money to Agent-A's bank in the U.S. All information is communicated electronically and

the entire process is accomplished within 48 hours. Additionally, last minute schedule changes are not as problematic since Agent-A is handling all the port calls in a specific region. It is likely that Agent-A will still handle the change in the port visit, therefore, there is no need for additional money to be advanced. As part of the Agency Agreement, Shipper-A must only "draw down" the amount of money that is needed and must spend or return the funds within a set period of time (several days). According to Shipper-A, the savings achieved through this money management function are enormous, enough to justify the regional agent concept.

[Refs. 7, 17, 24]

On the port agency side of the operation, Agent-A maintains five regional hubs throughout the world. Once Agent-A receives the funds at its bank, Agent-A wires the funds to its appropriate regional hub. As part of the Agency Agreement, Shipper-A will only pay in U.S. dollars, therefore, Agent-A is responsible for exchanging the funds into local currency as necessary. [Refs. 7, 24]

*b. Administrative Streamlining*

Shipper-A and Agent-A streamlined Shipper-A's administrative bill paying process and records keeping requirements. Shipper-A no longer requests that the original invoices be forwarded for their review. Instead, Agent-A is required to retain all original documents at its regional hub offices for the length of the contract, which is currently three years. Agent-A is required to submit consolidated weekly statements, which summarize all the port calls and associated expenses, to Shipper-A's financial headquarters. Shipper-A reserves the right to request specific invoices at any time and Shipper-A and Agent-A have agreed to initial audit dates. Shipper-A does not have any audit personnel located within

Agent-A's facilities. As a result, Shipper-A has greatly reduced the number of personnel tasked with managing and administering these contracts. These people have been reassigned to other areas within the company. [Ref. 24]

*c. Port Cost Templates and Variance Analysis*

According to Agent-A, experience has shown that port costs are similar for vessels that are regular callers to the same ports conducting similar business. [Ref. 26] As part of the agreement with Shipper-A, Agent-A is creating *port cost templates* for each port and each type of vessel. These templates set a standard cost structure for the various port expenses (tugs, pilots, line-handlers) and provide the basis for advanced funding, eliminating the necessity for a proforma estimate. Eliminating the proforma also helps to reduce the cost of communications. The final reconciliation statement provided by Agent-A at the end of a port call is accompanied by a disbursement account analysis giving any variances to the template. This information is forwarded from Agent-A's regional hub offices to the Agent-A's headquarters for consolidation and subsequent submission to Shipper-A in the consolidated weekly statements. [Ref. 24]

Agent-A is also creating *variable cost templates* for Shipper-A for each port and each type of vessel. These templates include variable costs such as those associated with crew change outs (hotel rates, transportation to airport, medical/dental rates), garbage disposal, laundry, and any other costs that are considered to be discretionary by Shipper-A. With these variable cost templates in hand for each port, Shipper-A can make decisions from an economical standpoint on when it might be preferable to change out crews, deliver additional supplies and personnel, or conduct routine maintenance. [Ref. 7, 24, and 26]

According to Shipper-A, these templates and variance analysis procedures have changed the way of thinking about port costs. Economic decisions about port calls can be made up front with the focus on variance and cost benefit analysis rather than on strictly auditing. [Ref. 24]

In the past, if the cost of a port visit was \$100,000.00, everyone would focus on auditing the original invoices to ensure they added up to \$100,000.00. If we found a \$20.00 error, we would pat ourselves on the back for catching the mistake. Meanwhile, no one was asking why the port call cost us \$100,000.00 in the first place when the visit to the port just up the coast only cost us \$75,000.00. [Ref. 24]

*d. Streamlined Communications*

One of the critical factors for successful port calls is timely and reliable communications among the principal (shipowner), the port agent and the ship's master. When Shipper-A was operating with 1100 agents, the cost of communications was enormous. Many of the independent port agents were on different "communication systems" and many of the ships' masters had a preferred method of communicating. This led to increasing costs and inefficiencies due to the number of systems and the probability for missed communications because certain systems were not being monitored. Complicating this matter was the fact that not all of Shipper-A's agents spoke fluent English. [Ref. 24]

Part of Shipper-A's source selection criteria in the area of communications was:

- Can you provide a fully fluent English-speaking point of contact and boarding agents for the vessels?
- Can you provide such communication coverage on a 24-hour basis?
- What methods of communications are currently available with your agency: phone, e-mail, fax, telex, Internet? [Ref. 25]

As a result of these criteria, Agent-A provides Shipper-A with fully fluent English-speaking agents at all ports, availability of agents 24 hours a day, and a special "hotline" number. Additionally, Shipper-A and Agent-A were able to agree on a single communications system that would link Shipper-A, Agent-A, and the individual ships' masters together. [Ref. 24]

There are still problems in the area of communications that are being resolved jointly by the Shipper-A/Agent-A alliance team. During negotiations, it was assumed that each company had standard communications systems throughout their own headquarters and field offices, and that it would be just a matter of linking the two systems together. In reality, it turned out that many of the field offices were operating on different systems. As a result, Shipper-A and Agent-A agreed to use a third party vendor (global e-mail) for a period of six months until the issues were resolved. Additionally, Shipper-A is working on some "cultural" difficulties in getting the various ship's masters to embrace the new global e-mail communication system. The single communication system for Shipper-A is expected to produce significant cost savings and efficiencies in the long run. [Ref. 24]

*e. Alliance - Partnership Team*

As part of the Alliance - Partnership Team concept, there were two key people from each company designated as the team. The team meets once a month to discuss and resolve any issues that surface and to look for ways to improve the operation. Other people from the key functional areas are called in as their expertise is required. [Refs. 17, 24]

One of the long term goals of the alliance is that as Agent-A achieves cost savings they will pass them onto Shipper-A. To this end, within the Agency Agreement there is an Incentive Sharing Program which allows Agent-A to share in the savings it achieves through

future efficiencies. As a general rule, Shipper-A does not dictate which sub-agents and vendors Agent-A should use. Shipper-A expects that Agent-A will utilize sub-agents and vendors that are competitive in price but of a best value nature. The incentive sharing program is designed to help encourage these types of relationships. [Ref. 24]

Another long term goal of the alliance is to reduce potential legal expenses by preventing and resolving issues before they become legal problems and wind up in litigation. Many of the issues are initially addressed at the monthly alliance team meetings and worked in earnest until resolution. The alliance team members from both companies are empowered and expected to resolve many of the issues, thus preventing the need for any legal action. Additionally, the Alternative Dispute Resolution (ADR) technique of arbitration was agreed upon and addressed within the contract as a faster and less costly means of settling disputes than litigation. [Ref. 24]

Although Shipper-A did not elaborate on the subject, when asked by the researcher if there were any political consequences from the instantaneous shift from 1100 agents down to five agents, Shipper-A replied that there was some "political fallout" but it was relatively minor and actively being addressed. [Ref. 24]

### C. CASE ANALYSIS

This section examines the advantages and the disadvantages of adapting the commercial regional husbanding agency concept for use within the Navy. As previously discussed in Chapter II, the Navy contracts with approximately 55 separate husbanding agencies throughout the world. The regional agency approach would allow several select

husbanding agencies to handle all the port visits of Navy ships. The Navy would be responsible for initially identifying the potential “regions” under this approach.

### **1. Advantages/Benefits**

#### ***a. Navy & Regional Husbanding Agency Partnership***

The regional husbanding agency approach would provide the Navy with an active partner who would be the expert in his particular region of the world. Under this “partnership,” both parties would take a proactive approach in managing the husbanding services and resolving any issues that arose. As discussed in the commercial case, an ADR agreement and a cost savings/sharing incentive program could be structured into the contract. Implementation of these commercial practices would provide the regional husbanding agency additional incentives to strive for further cost savings efficiencies.

#### ***b. Reduced Number of Contracts to Award***

The regional husbanding agency approach has the potential to significantly reduce the number of contracts that the Navy would have to either award or exercise options on each year. The extent of the reduction would depend on how the Navy segregated the regions and which husbanding agencies were awarded contracts in which regions. It would be possible for the same agency to be awarded contracts for multiple regions. With a significantly less number of individual husbanding agencies to award contracts to and administer than the current approach, the Navy would be able to focus its efforts on analyzing and resolving the port cost issues discussed in Chapter IV.

#### ***c. Market Research of New Ports Reduced***

The Navy conducts extensive market research to determine what services are

available at a new port prior to drafting the solicitation. This market research is time consuming and costly. To fully exploit the regional agency concept, the requirement to conduct this initial market research could be included as part of the Statement of Work (SOW) and passed on to the regional agencies. The regional agencies would then be responsible for conducting the initial market research for any new ports within their designated areas. The Navy could be brought in at a much later date to analyze the information collected by the regional husbanding agency, thus saving valuable resources.

*d. Regional Focus vice Single Port Focus*

The regional husbanding agency would provide a "regional" focus for all of the Navy's requirements and would be able to assist with planning, operational, and cost issues. This would be a philosophical shift from the way husbanding agencies were utilized in the past.

As regional experts, the agencies would be able to assist in the logistical planning of port visits, major exercises, and in Operations Other Than War (OOTW). In addition to providing services for the Navy, the regional husbanding agency could provide tailored logistical support services to the U.S. Marine Corps (USMC) by assisting them with the movement of equipment, cargo, and personnel over "civilian" land. This type of logistical support might include coordinating with the local, state and national authorities to use public roads; coordinating the replenishment of fuel, water, and other provisions; and providing quick response in the case of emergencies such as medical injuries. As discussed earlier, the regional husbanding agency would be responsible for coordinating any necessary actions with the sub-agencies.

The regional agency approach would also provide easier coordination of port schedule changes. As discussed in Chapter IV, schedule changes to port visits are a frequent part of Navy operations and often occur on short notice. A regional agency, in most cases, would be responsible for canceling visits at one port and arranging for visits at another port. Most likely, the same regional agency would be responsible for providing services in both ports.

Port costs could also be viewed and analyzed at a regional level. The regional agency could provide the Navy with the port cost information to assist with economic decisions relating to the scheduling of port visits. This will be discussed in more detail under the budgeting and variance analysis section presented next.

*e. Port Cost Templates, Budgeting, Variance Analysis*

As presented in the commercial case study, the use of port cost templates and variable cost templates would be of great benefit to the Navy in the budgeting and monitoring of its port costs. These port/variable cost templates could be combined into one form and be used by both the ship as well as the Navy Fleet and Type Commanders.

NRCC Naples currently provides a pre-deployment brief to the ships in the Battlegroup prior to their departure from CONUS, however, the briefs do not provide specific port cost information. With the implementation of the regional husbanding agency approach, these port/variable cost templates could be provided to the Fleet and Type Commanders as well as the individual ships in the Battlegroup prior to their departure.

NRCC Naples already adapted part of this commercial practice for use within its current contracting and administration process. The Cost Reporting, Analysis and

Forecasting (CRAFT) system discussed in Chapter IV is a modified version of the port cost template idea. The CRAFT system is initially being developed and implemented by NRCC Naples with input from the current husbanding agencies. To fully exploit the regional agency approach, the responsibility for developing the port/variable cost templates could be passed onto the regional agency. Once the port/variable cost templates were implemented, the Navy contracting activity would be able to concentrate more of their administration efforts on the "variance analysis" portion. This would mirror the commercial approach.

*f. Consistent Level of Quality Services*

Currently, with numerous different husbanding agencies, the quality of services provided in each port varies with the husbanding agency responsible for that port. Utilizing a regional agency would provide a more consistent level of service throughout the region. The regional agency would be responsible for training its sub-agencies and ensuring that they provided an equal level of quality services.

Although husbanding agencies are not required to be "certified," the Navy could structure the source selection criteria to include ISO 9000 certification as a key factor.

**2. Disadvantages/Barriers**

*a. Increased Use of Sub-Agencies*

The regional husbanding agency approach has the potential to significantly expand the use of sub-agencies (sub-contractors) in husbanding services contracts. Currently, the majority of husbanding services contracts are awarded directly to a "prime agency" located in a particular port. The prime husbanding agency directly coordinates with the vendors and other "service providers," but in the majority of instances, does not use sub-

agencies. "Agents managing agents" is common within the commercial sector but has not been exploited by the Navy. One reason may be the perceived "loss of control" by the Navy over the sub-agencies. To help overcome this barrier, the regional agency's prior commercial experience in managing sub-agencies could be an important evaluation factor during the solicitation and evaluation phases of the contracting process.

*b. Increased Initial Market Research*

The Navy would be responsible for conducting the initial market research to identify the potential "regions." One possibility might be to establish "large regions such as: Europe and the Mediterranean; the Middle East and Africa; Asia Pacific; and the Americas [Ref. 26]." Another possibility might be to establish smaller regions, such as a grouping of several countries. The ideal number of regions, however, will only be determined through extensive market research. This initial market research may prove to be costly in manpower and resources. Additionally, since the regions will most likely cross country boundaries, a thorough review of local, state, and national laws must be conducted as part of the market research to ensure full and open competition is possible in all regions.

*c. Partnership Restricted to Confines of the Contract*

The nature of the partnership between the Navy and the regional husbanding agency would still be restricted to a large degree to the confines of the formal contract. In the commercial sector, firms usually try to avoid litigation and resolve issues on the basis of fairness as opposed to the letter of the law. The Government, as a whole, however, is more likely to rely directly on the terms and conditions of the contract and pursue legal remedies. Although "partnerships" are initially structured and implemented with the best of intentions,

as key personnel turnover in Government and industry, there may be the potential to fall back on the strict interpretation of the contract. This dilutes the benefits of a partnership. [Ref. 4:p.A-3]

Additionally, the commercial practices of long-term commitments and relationships are restricted by laws and regulations when applied to the Government. In the case of the regional husbanding agency, the contract period would still be limited to one base year and a maximum of four option years. [Ref. 6:Part 17.204 (e)]

*d Potential Political Ramifications*

The potential for political ramifications is much greater than in the commercial world due to the nature of Navy port visits. Many of the port visits are for official and diplomatic reasons, often in conjunction with combined military exercises. As previously discussed, a thorough review of local, state, and national laws must be conducted as part of the market research.

There is also the potential for political considerations to strongly influence the market research process. For example, certain countries may "prohibit" other countries from performing work that citizens of the host country could perform. These political considerations should be carefully balanced with the economic goals of improved cost, quality, and service to ensure the maximum degree of efficiencies are obtained through the use of this regional husbanding agency approach. To overcome this barrier, one solution would be for the regional husbanding agency to sub-contract to a "local" agency. The regional agency would still be responsible for overseeing the services in that port.

*e. Increased Risk*

The risk involved in moving toward a regional husbanding agency contract is much higher than under the traditional approach. The regional husbanding agency would be in an influential position of managing other agencies, would be performing jobs previously done by Navy employees, and would leave the Navy in a very undesirable position if they experienced severe financial problems or were purchased by another company. These reasons make the regional husbanding agency approach much riskier.

*f. Financial Streamlining Difficulties*

The financial streamlining benefits would not be as readily apparent in the Navy as they were in the commercial sector. This is largely due to the fact that the Navy currently pays for services after the services are rendered. This prevents the Navy from having to float cash out in advance and then worry about reconciling the accounts. Additionally, in the commercial sector, the bills are paid by a "shore" establishment and not by the individual ship's master or supply officer. In the Navy, however, the individual ship's supply officer is responsible for authorizing the payment and cutting the check.

Under the current financial structure and procedures, the Navy would not be able to realize the benefits of financial streamlining. As the Navy pushes ahead with Electronic Funds Transfer (EFT), this concept could provide greater efficiencies and has the potential to remove administrative workload from the ships.

#### **D. SUMMARY**

Chapter V began by presenting a commercial case study that illustrated Shipper-A's innovative approach to resolve what it considered some of the problems inherent in the way it was contracting and managing its port agencies. The case discussed the solicitation process, the source selection criteria, the contract, and several of the key concepts within the contract. The chapter then examined the advantages and disadvantages of adapting the commercial regional husbanding agent concept for use within the Navy.

Chapter VI presents the researcher's conclusions and recommendations regarding the research effort. Included are answers to the primary and subsidiary research questions, and recommendations for further research.



## **VI. CONCLUSIONS AND RECOMMENDATIONS**

### **A. INTRODUCTION**

The primary purpose of this thesis was to examine the application of commercial practices to Navy husbanding services contracts. This chapter presents the researcher's conclusions and recommendations regarding the research effort. Included are the answers to the primary and subsidiary research questions, and areas for further research.

### **B. CONCLUSIONS**

#### **1. Navy Husbanding Services Contracts - Difficulties**

This research identified several difficulties associated with the award and administration of Navy husbanding services contracts. These difficulties were encountered during the pre-award and post-award phases of the contracting process. The following difficulties were identified and analyzed in Chapter IV.

##### **Pre-Award Difficulties:**

- Navy husbanding services contracts were time consuming to award due to: 1) the formality of the Federal Government contracting process, and 2) the language barriers associated with foreign contractors.
- Market research results were not always consistent with the actual services available at the port because: 1) the local authorities wanted to give a positive impression of their port and related services, and 2) there were different interpretations of the Navy's requirements by the port authorities, husbanding agents, and the vendors.

- Fair and reasonable price determination was difficult due to: 1) the limited competition available in some ports, 2) the vast differences in the individual ships that visit the ports, and 3) the existence of port tariffs.

#### **Post-Award Difficulties:**

- Monitoring port costs was difficult due to: 1) the fluctuating port tariff prices, 2) the vast differences in the ships, and 3) the numerous different requirements of the individual ships.
- Unpaid husbanding services bills, caused by ships leaving port prior to settling all their accounts, significantly increased the administrative workload of the Navy contracting activities.
- There were a large number of separate husbanding services contracts for the Navy contracting activities to administer. This was a result of contracting for husbanding services on a port-by-port basis.
- There were incidents of partial non-performance by husbanding agents in ports that experienced unexpected, prolonged periods of low ship's visits. Husbanding agents relocated some of their key assets (fenders, barges, camels) during these low periods, to ports with a higher frequency of ship's visits, and were then caught short when the frequency of U.S. Navy visits to that port suddenly increased again.
- Total estimated port costs were not provided to ships in advance of port visit. This resulted from the lack of a formalized system to track and forecast port costs, and led to customer dissatisfaction.
- Frequent changes to the ships' schedules increased the administrative workload of the Navy contracting activities and the husbanding agents.
- No cost savings incentives were structured into the husbanding services contracts. Contract administration personnel had to rely on auditing techniques to ensure the correct prices were being charged.

#### **2. Commercial Practices Identified**

This research identified several commercial practices regarding the award and administration of husbanding services. These practices were discussed in Chapters II and V

and include the following:

- There was a greater reliance on the customs and the standard business practices of the industry. As a result, the commercial contract document was much shorter than the Government's.
- Commercial firms often utilized the husbanding/port agent's standard "Terms & Conditions" sheet as a basis for the contract.
- There was a greater reliance on oral communications throughout all phases of the contracting process. These oral communications included oral proposals, presentations, and discussions.
- Commercial firms utilized a "regional husbanding agency" approach where one husbanding agency was responsible for all the ports in a large geographical area.
- Commercial firms utilized "port cost templates" to provide advanced cost estimates for their anticipated port visits.
- Commercial firms paid the husbanding/port agent in advance of the port visit. Additionally, payment was made by the company's shore establishment, not by the individual ships' masters or representatives.
- Long standing supplier relationships existed. Contract time periods were not restricted by law or regulation.
- Commercial firms utilized cost savings incentive programs to encourage additional efficiencies among the husbanding agents.

### **3. Adoption of Commercial Practices**

The adoption of commercial practices has the potential to mitigate several of the difficulties associated with the award and administration of Navy husbanding services contracts. These practices were discussed and analyzed in Chapters IV and V and include the following:

- The regional husbanding agency approach, where one husbanding agency is

responsible for all the ports in a large geographical area, may: 1) reduce the number of husbanding services contracts to award or renew on an annual basis; 2) reduce the market research efforts for new ports; 3) provide a "regional" focus vice a single port focus for planning, operational, and cost issues; and 4) provide a more consistent level of service throughout the region.

- The elimination of the contract time period restriction, of one base year and up to four option years, will result in a reduced number of husbanding services contracts to award or renew on an annual basis.
- A formalized tracking and forecasting port cost system will: 1) allow increased visibility over individual port costs for budgeting and analysis purposes, and 2) provide the data necessary to develop and publish port cost templates. These port cost templates should be published on the Internet for easy access.
- The increased use of on-site oral presentations: 1) has the potential to significantly reduce the Navy's time to award a husbanding services contract, 2) provide the source selection evaluation team with additional information that may increase the Navy's understanding of the husbanding agent's proposal, and 3) provide the contracting activity with an "initial quality review" of the husbanding agent's key operating equipment.

#### **4. Similar Problems Within the Commercial Sector**

The commercial sector is struggling with many of the same issues surrounding the award and administration of husbanding services contracts.

Chapter IV discussed the difficulties associated with the award and administration of Navy husbanding services contracts. The commercial company, Shipper-A, experienced many of the same difficulties as the Navy, prior to its adoption of the regional husbanding agency approach discussed in Chapter V. Among those difficulties experienced by both the Navy and the commercial sector were: 1) difficulties in determining fair and reasonable prices, 2) lack of control over the price and quality of specific port tariff items, 3) frequent schedule changes, 4) communication delays, and 5) difficulties in monitoring port costs. This seems to indicate

that a mutual sharing of information between the Navy and the commercial sector may provide beneficial solutions to the problems experienced by both parties.

### **5. Selective Adoption of Commercial Practices**

The Navy must be selective in adopting commercial practices. The commercial practices must make good business sense and fit with the other goals of the Federal Government.

One example of a commercial practice that does not make good business sense for the Navy to adopt at this time, is to pay for husbanding services in advance of the ship's port visit. Although this is standard commercial practice, the adoption of this practice with the current technology would create more problems than it solved.

## **C. RECOMMENDATIONS**

Based on the research efforts, the following recommendations are provided.

### **1. Adopt Commercial Practices**

The Navy should adopt the "best commercial practices" identified in the third conclusion to mitigate the difficulties associated with the award and administration of Navy husbanding contracts to the greatest extent possible. These "best commercial practices" include: 1) implementing a regional husbanding agency approach, 2) establishing a formalized tracking and forecasting system for port costs, and 3) developing and publishing port cost templates on the Internet.

Adoption of a regional husbanding agency approach may: 1) reduce the number of husbanding services contracts to award or renew on an annual basis; 2) reduce the market

research efforts for new ports; 3) provide a “regional” focus vice a single port focus for planning, operational, and cost issues; and 4) provide a more consistent level of service throughout the region.

Adoption of a formalized tracking and forecasting port cost system, such as CRAFT, will allow increased visibility over individual port costs for budgeting and analysis purposes by the Fleet and Type Commanders, the Navy contracting activities, and the individual ships. Additionally, the visibility that monitoring these port costs provides, can lead to decisions about the future technology the Navy should invest in.

Adoption of the “port cost templates” will provide a simple, but effective means of readily accessing this “real time” cost data.

## **2. Increase the Use of On-Site Oral Presentations**

The Navy should increase the use of on-site oral presentations to mitigate pre-award and post-award issues.

The commercial sector relied heavily on the use of oral communications throughout all phases of the contracting process to reduce the time and cost of awarding a husbanding service contract. As discussed in Chapter IV, on-site oral presentations: 1) have the potential to significantly reduce the Navy’s time to award a husbanding services contract, 2) provide the source selection evaluation team with additional information that may increase the Navy’s understanding of the husbanding agent’s proposal, and 3) provide the contracting activity with an “initial quality review” of the husbanding agent’s key operating equipment.

### **3. Expand the Services Contract Time Period Limitation**

The Government should significantly expand the contract time period limitation, of one base year and up to four option years, that is currently imposed on service contracts.

[Ref. 6:Part 17.204(e)]

The expansion of this time limitation would allow husbanding services contracts to be awarded and renewed for periods greater than one year. This would significantly reduce the administration workload of Navy contracting activities by reducing the number of contracts that had to be recompeted or renewed every year.

One recommendation is to allow for a base period of up to three years, and 3 two-year option periods, for a total of nine years. Although there would still be a large number of individual husbanding contracts to administer, a longer time period would significantly reduce the recompetition and renewal workload.

### **4. Pursue the Use of the Credit Card**

The Navy should pursue the use of the International Merchant Purchase Authorization Card (I.M.P.A.C.) credit card to reduce the administrative workload associated with unpaid husbanding services bills.

The use of the I.M.P.A.C. credit card to reduce the administrative workload associated with unpaid husbanding services bills was strongly supported by the attendees at the NRCC Naples 1996 Fleet Support Conference. Its use would reduce the administrative workload of Navy contracting activities, decrease the cycle time of unpaid bills, and provide the husbanding agent with the funds in a faster and more efficient manner.

## **5. Maintain Open Lines of Communication with Industry**

The Navy should maintain open lines of communication with the commercial sector to collect current information on commercial practices. One forum for exchanging information with the commercial sector is the annual Fleet Support Conference. This conference is also a means for strengthening the Navy/husbanding agent team.

Commercial practices are constantly evolving. Within the short time span of six months, the commercial company presented in Chapter V, radically transformed its international port agency structure. This resulted in: 1) streamlined administrative procedures, 2) simplified cash management, 3) enhanced communications, and 4) a consistent level of specialized port agency service. These issues are similar to ones the Navy is facing with its husbanding services contracts. Maintaining open lines of communication with the commercial sector will allow the Navy to readily adopt selected best commercial practices when applicable.

## **D. ANSWERS TO RESEARCH QUESTIONS**

The primary research question was addressed through investigating the five subsidiary research questions. The answers to these research questions are presented below.

### **1. Subsidiary Questions**

#### **a. *What Are Navy Husbanding Services?***

Husbanding services are the supplies and services that a ship requires when it pulls into a port. This includes services such as: trash removal; sewage removal; waste oil and aggregate water removal; potable water, cargo lighterage, and cargo drayage services;

crane and forklift services; water taxi service; bus service; telephone service; pilotage, towage, and line handlers; berthing; fenders, camels, and brows; paint float rentals; fuel; and provisions. In the United States, these husbanding services are provided by the military's regional base operations. In foreign ports, however, these services are contracted out to commercial firms known as husbanding agencies. Chapter II provided a thorough description of each of these services.

*b. How Does the Department of Navy Currently Award Husbanding Services Contracts?*

The Department of the Navy currently awards its husbanding services contracts using competitive proposals and "best value" contracting. Husbanding services contracts are usually awarded on a port-by-port basis for a period of one year, and up to four additional option years. Although specific evaluation factors may vary with each contract and port, typical evaluation criteria for a husbanding agent include technical approach, equipment and support availability, management approach, price, experience, and past performance.

The technical approach may include evaluation factors such as number of personnel, bilingual proficiency, and technical competence. The equipment and support availability would include such factors as the availability of communications, availability or access to all equipment, administrative support and the coordination of all the necessary equipment. The management approach would include such factors as the pre-arrival plan, the initial boarding plan, the contractor's plan for monitoring the progress of work and pre-sailing procedures. In the area of experience, the agent's past and current experience as a Navy

husbanding agent or a commercial ship agent, the recency of his experience, the relevancy of his experience, and the experience he has in that specific port are all factors to be evaluated. Chapter II discussed the contracting process for husbanding services in detail.

*c. What Are the Common Difficulties Associated with Navy Husbanding Services Contracts?*

There are several difficulties associated with husbanding services contracts which occur during both the pre-award and post-award phases. The pre-award problems include: 1) husbanding services contracts are time consuming to award, 2) market research results are not consistent with the true services available at the port, and 3) fair and reasonable price determination for contract items is challenging.

The post-award difficulties include: 1) monitoring port costs, 2) unpaid husbanding services bills, 3) large number of husbanding services contracts for Navy contracting activities to administer, 4) incidents of partial non-performance by husbanding agents, 5) lack of estimated port costs, 6) frequent changes to ships' schedules, and 7) lack of cost savings incentives for the husbanding agents.

*d. What Are the Current Practices Within the Private Sector Regarding Contracting and Administering Husbanding Services?*

The current practices within the private sector regarding the contracting and administering of husbanding services were outlined in conclusion number two and discussed in detail in Chapters II and V.

*e. What Are the Advantages/Benefits and the Disadvantages/Barriers for the Navy in Implementing Commercial Practices in this Area?*

There were several advantages/benefits and disadvantages/barriers for the

Navy in implementing commercial practices. Among those noted and discussed in Chapters IV and V were the following:

**Advantages/Benefits:**

- There is a potential for a strong partnership between the Navy and the regional husbanding agency.
- The regional husbanding agency approach will result in a reduced number of husbanding services contracts to award or renew on an annual basis.
- The elimination of the contract time period restriction will result in a reduced number of husbanding services contracts to award or renew on an annual basis.
- The regional husbanding agency approach will reduce the market research efforts for new ports.
- The regional husbanding agency approach will provide a “regional” focus vice single port focus for planning, operational, and cost issues.
- A formalized tracking and forecasting port cost system will allow increased visibility over individual port costs for budgeting and analysis.
- The regional husbanding agency approach will provide a consistent level of services throughout the region.

**Disadvantages/Barriers:**

- The regional husbanding agency approach will increase the use of sub-agencies.
- The partnership between the Navy and the husbanding agency will still be restricted to confines of the contract.
- The implementation of the regional husbanding agency approach increases the contract risk and carries potential political ramifications.
- The complete benefits of the financial streamlining and consolidation are unobtainable under the current Navy system.

## **2. Primary Question**

*Are there any commercial practices currently being used in the private sector that the Department of the Navy, specifically NRCC Naples, could apply to the process of awarding and administering husbanding services contracts to improve the way the Navy does business?*

There are several commercial practices that the Department of the Navy could apply to the process of awarding and administering husbanding services contracts to improve the way the it does business. These practices were outlined in Chapters III and V and include:

- Continue to streamline the solicitation and contract documents to include only those necessary specifications and clauses.
- Increase the use of on-site oral presentations to reduce the time to award a husbanding services contract.
- Move toward a “regional husbanding agency” approach where one husbanding agency is responsible for all the ports in a large geographical area.
- Utilize “port cost templates” to provide advanced cost estimates for their anticipated port visits. Publish these templates on the Internet for easy access.
- Implement cost savings incentive programs in husbanding service contracts to encourage additional efficiencies among the husbanding agents.
- Continue to formalize the tracking and forecasting port cost system to allow increased visibility over individual port costs for budgeting and analysis purposes.

## **E. AREAS FOR FURTHER RESEARCH**

Husbanding services contracts and their related costs are receiving much attention at the Fleet and Type Commander level as the Department of Defense budget continues to decrease. Although most agree that the implementation of “best commercial practices” makes

good business sense, additional quantitative supporting data should be obtained to support this concept. This section provides areas that require additional research.

1. Conduct a cost/benefit analysis of the regional husbanding agency approach. Based on the results of the analysis, should the Navy adopt this regional husbanding agency approach in lieu of its current method?
2. Develop a "regional husbanding agency" plan that could be adopted by the Navy. Ideally, this would include proposing the Navy's "regions" and conducting the initial market research to ascertain the feasibility and level of competition in each of the proposed regions.
3. Conduct research on developing a means of gathering and recording information on commercial practices as they relate to husbanding services contracts. The research should explore existing methods and whether they can be expanded for use by other contracting offices.

#### **F. SUMMARY**

This thesis focused on the application of commercial practices to Navy husbanding services contracts. It examined the general background and framework for the use of husbanding agents within the Department of the Navy and explored the pre-award and post-award issues associated with these husbanding services contracts. Through personal interviews and a review of the available literature, the research provided beneficial insight into the practices currently being utilized by commercial ship operator firms and commercial port agencies. The research identified several best commercial practices related to husbanding

services and examined the benefits and the barriers for the Navy to implement these practices.

From this research, it is evident that the Department of the Navy can benefit from adopting select commercial practices for use within their contracting activities that award and administer husbanding services contracts. Continued research to identify and adopt selected best commercial practices is recommended.

## **APPENDIX A. LIST OF INTERVIEWS**

1. Interviews between LCDR Herb Bryns, USN, Executive Officer, NRCC Naples and the researcher during the period 08 July 1996 to 15 October 1996.
2. Interviews between Mr. Kevin McGinn, Director Contracts Division, NRCC Naples and the researcher during the period 08 July 1996 to 15 October 1996.
3. Interview between CAPT James A. Anderson, USN, Assistant Deputy Commander for Business Operations, Military Sealift Command and the researcher, 18 July 1996.
4. Interview between Senior Executive Vice President, Husbanding Agency A and the researcher, 04 September and 01 October 1996.
5. Interview between Senior Executive Vice President, Husbanding Agency B; Operations Director, Husbanding Agency B; and the researcher, 10 September 1996.
6. Interview between Vicki S. Dyer, Contract Negotiator, FISC San Diego and the researcher, 12 September 1996.
7. Interview between Vice President Pacific Southwest Region, FOSS Maritime and the researcher, 13 September 1996.
8. Interview between General Manager, Husbanding Agency A and the researcher, 13 September 1996.
9. Interview between Operations Manager, Husbanding Agency A and the researcher, 13 September 1996.
10. Interview between Vice President, Husbanding Agency A and the researcher, 25 September and 04 November 1996.
11. Interview between Regional Marine Operations Manager, Husbanding Agency A and the researcher, 25 September 1996.
12. Interview between Virginia Redstone, Executive Director, Association of Ship Brokers & Agents (U.S.A.) Inc., and the researcher 01 October 1996.

13. Interview between Husbanding Agent, Husbanding Agency C and the researcher, 15 October 1996.
14. Interviews between CAPT Kurt Huff, USN, Commanding Officer, NRCC Naples and the researcher, 15- 17 October 1996.
15. Interviews between LT Dave Shealy, USN, Fleet Support Officer, NRCC Naples and the researcher, 15- 17 October 1996.
16. Interview between Mr. Peter A. Parrot, Director Contract Division, NRCC Naples Southwest Asia Detachment and the researcher, 15 October 1996.
17. Interview between Operations Director, Commercial Ship Operator, and the researcher, 04 November 1996.

## **APPENDIX B. HUSBANDING & PORT AGENT QUESTIONNAIRE**

1. Does your company separate commercial and U.S. Government/Navy business? How are the operations separated? Why are the operations separated?
2. Who are your key customers?
3. What type of services do you provide for commercial ship operators? (Tugs, line handlers, pilots, provisions, etc.)
4. How is the role of a commercial ship agent different from that of a Navy husbanding agent?
5. What type of licensing requirements do you encounter around the world? What type of fees must be paid and what type of standards or certifications must be met? Are there any restrictions regarding your operations in the various ports?
6. What difficulties do you encounter when dealing with the various port authorities around the world? Is your company granted concessions? Do you negotiate with the port authorities on behalf of your customers or is it the customers responsibility?
7. Do you see a benefit if the U.S. Government/Navy were to partner with commercial firms to negotiate lower port tariff rates?
8. How do you determine tonnage for the various ships you provide services to so that tariffs can be applied by pilots, tugs, line handlers, etc.? Is this approach uniform or does it vary with company?
9. How do commercial ship operators describe the type of services they require from your company? (Standard industry terms, detailed descriptions or specifications)?
10. What contract type is most frequently used with commercial ship operators? (Fixed-Price for the agent, Fixed-Price/Cost Reimbursable for other services/supplies, Time and Materials?)
11. How long is a typical contract with a commercial ship operator? (Number of pages or other method that would be descriptive). How does this compare with a typical Government contract for husbanding services?
12. How many clauses are used are in the contract with the commercial ship operators? What are the significant clauses to you? What clauses do you believe are significant to your customers?

13. How long does the contracting process take from your initial bid to contract award on commercial husbanding/ship agent contracts? On U.S. Government/Navy contracts?
14. How are payments typically structured? When are payments generally made?
15. What type of reports do commercial ship operators expect you to provide?
16. Do you regularly seek competition from your vendors/subcontractors who are providing various services to the ships you manage?
17. Do you use the same vendors/subcontractors for both the commercial ships you manage and the U.S. Navy ships you manage?
18. How do you settle disputes? Who determines the "governing body of law?" Are companies moving toward an Alternative Disputes Resolution method rather than the traditional courts?
19. What practices are currently used by the commercial ship operators that would be beneficial for the U.S. Government/Navy to adopt?
20. What benefits would your company expect to see from the U.S. Government/Navy adopting more commercial practices?
21. What barriers do you see in doing business with the Government?
22. Do you have any other comments or statements that were not previously discussed?
23. Do you have any points of contact that would be beneficial to this research? (Ship Operators, Ship Managers, Port Authorities)

## **APPENDIX C. COMMERCIAL SHIP OPERATOR QUESTIONNAIRE**

1. What type of port services does your company typically contract with ship agents for? (Husbanding services, tugs, line handlers, protecting services, provisions, etc.).
2. When selecting a ship agent, what criteria are most important to your company?
3. Does your company contract/arrange for services directly with specific vendors/port authorities for any items (such as tugs) rather than using a ship agent? Do you do this because you can negotiate better terms than the ship agent? More control?
4. What type of insurance does your company carry to protect against any damage caused by your vessels or the vessels whose owners you represent? Are you self-insured?
5. How does your company define liability? How does your company determine liability? Does your company's agreement/contract with a ship agent specifically cover the issue of liability?
6. How do you settle disputes? Who determines the "governing body of law?" Do you use an Alternative Disputes Resolution method rather than the traditional courts?
7. Does your company negotiate with the port authorities or do you let the ship agents negotiate on your behalf? What difficulties do you encounter when dealing with the various port authorities around the world?
8. How does your company ensure that the ship agents are getting competitive prices from the vendors/subcontractors they employ? Do you require that your agents "compete" their vendors/subcontracts?
9. Does your company have a long standing relationship with the various ship agents it employs throughout the world?
10. How much time does your company spend in the day-to-day administration of ship agent and port services contracts?
11. What is the typical contract period for agent/port services? How many, if any, option years do you allow?
12. How long does the procurement process take when your company has to solicit for new contracts? How many personnel does it involve? Do you use oral presentations?

13. How do you describe the type of services in your solicitation? (Standard industry terms, detailed descriptions or specifications)?
14. What contract type is most frequently used with ship agents? (Fixed-Price for the agent, Fixed-Price/Cost Reimbursable for other services/supplies?)
15. What length is the typical contract with a ship agent? (Number of pages or other method that would be descriptive).
16. How many clauses are used are in the contract with the ship agents? What are the significant clauses to you? Which clauses do you believe are significant to the ship agents?
17. How are payments typically structured? When are payments generally made?
18. What type of reports do you require from ship agents?
19. What practices are currently used by the commercial ship operators that would be beneficial for the U.S. Government/Navy to adopt?
20. Do you have any other comments or statements that were not previously discussed?
21. Do you have any points of contact that would be beneficial to this research?

**APPENDIX D. DESCRIPTION OF U.S. NAVY SHIPS BY CLASS & TYPE**

<b>TYPE</b>	<b>DRAFT FT(MT)</b>	<b>LENGTH FT(MT)</b>	<b>BEAM FT(MT)</b>	<b>DISP TONS</b>	<b>MAXIMUM CREW</b>
<b>CLASS I:</b>					
ARS	13 (4.3)	207 (63)	39 (12)	1,900	85
ASR	21 (6)	251 (77)	86 (26)	4,200	24
ATF	16 (5)	196 (60)	39 (12)	1,675	24
ATS	15 (5)	283 (86)	50 (15)	3,117	102
MHM/MCM	15 (4.6)	224 (68.3)	39 (11.9)	1,380	82
PC	08 (2.5)	187 (57)	26 (8)	320	35
SSN 594-621	28 (8)	279 (65)	32 (10)	4,300	120
SSN 637-687	26 (8)	292 (89)	32 (10)	4,630	120
SSN 688-718	32 (10)	360 (110)	33 (10)	6,900	127
<b>CLASS II:</b>					
AE 21-25	29 (9.0)	512 (156)	72 (22)	17,500	316
AE 26-35	26 (8.0)	564 (172)	81 (25)	20,000	401
AFS	24 (7.0)	581 (177)	79 (24)	16,500	430
AO/TAO	35 (11.0)	640 (195)	86 (26)	40,000	300
AOR	33 (10.0)	659 (201)	96 (29)	38,100	345
CG 47-73	35 (11.0)	564 (172)	55 (17)	9,650	400
CGN 36-37	31 (10.1)	596 (181.7)	61 (18.6)	10,462	480
CGN 38-42	30 (9.0)	585 (177)	63 (19)	11,000	442
DD 963-993	29 (9.0)	592 (185)	55 (17)	7,800	250
DDG 51-58	31 (10.1)	510 (153)	64 (20.1)	8,400	350
FFG 7-63	25 (8.0)	445 (135)	45 (14)	3,500	215
TAF	29 (9.0)	581 (153)	72 (22)	15,540	350
<b>CLASS III:</b>					
AD 14-19	26 (8)	520 (158)	73 (22)	17,176	1,698
AD 37-38	23 (7)	643 (196)	85 (24)	22,260	1,806
AOE	39 (12)	793 (242)	107 (53)	53,600	600
AR	23 (7)	520 (159)	73 (22)	16,200	715
AS 11-19	26 (8)	574 (179)	73 (22)	18,000	917
AS 33-34	30 (9)	644 (196)	85 (26)	20,000	1,075
AS 36-42	29 (9)	644 (196)	85 (26)	23,350	1,158
LCC	27 (8)	620 (189)	82 (25)	19,290	1,420
LPD 4-15	23 (7)	570 (178)	84 (26)	16,900	1,320
LSD 28-35	19 (6)	553 (159)	84 (26)	13,700	773
LSD 36-40	19 (6)	553 (172)	84 (26)	13,700	773

<u>TYPE</u>	<u>DRAFT FT(MT)</u>	<u>LENGTH FT(MT)</u>	<u>BEAM FT(MT)</u>	<u>DISP TONS</u>	<u>MAXIMUM CREW</u>
<b>CLASS IV:</b>					
LHA	29 (9)	778 (238)	106 (32)	39,000	2,625
LPH	26 (8)	592 (180)	84 (26)	18,300	2,618
<b>CLASS V:</b>					
CV 59-62	37 (11.3)	990 (302)	130 (40)	78,000	4,940
CV 63-67	36 (11)	990 (302)	130 (40)	87,000	4,950
CV 68-70	37 (11.3)	1040 (317)	134 (41)	91,400	6,100

AD = DESTROYER TENDER  
 AE = AMMUNITION SHIP  
 AFS = COMBAT STORE SHIP  
 AO = OILER  
 AOE = FAST COMBAT SUPPORT SHIP  
 AOR = REPLENISHMENT  
 AR = REPAIR SHIP  
 ARS = SALVAGE SHIP  
 AS = SUBMARINES TENDER  
 ASR = SUBMARINE RESCUE SHIP  
 ATF = FLEET TUG  
 ATS = SALVAGE SHIP  
 CV = AIRCRAFT CARRIER  
 CVN = AIRCRAFT CARRIER NUCLEAR  
 CG = GUIDED MISSILE CRUISER  
 CGN = GUIDED MISSILE CRUISER-  
 NUCLEAR

DD = DESTROYER  
 DDG = GUIDED MISSILE DESTROYER  
 FFG = GUIDED MISSILE FRIGATE  
 LCC = AMPHIBIOUS COMMAND SHIP  
 LHA = AMPHIBIOUS ASSAULT SHIP  
 LPD = DOCK LANDING SHIP  
 LPH = HELICOPTER ASSAULT SHIP  
 LSD = LANDING SHIP DOCK  
 LST = LANDING SHIP TANK  
 MHM = MINE WARFARE CRAFT  
 MCM = MINE COUNTERMEASURES  
 CRAFT  
 PC = PATROL CRAFT  
 SSN = SUBMARINE - NUCLEAR  
 TAF = REPLENISHMENT SHIP  
 TAO = OILER

[Source: Ref. 27: Technical Attachment A]

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